1 August — 15 August, 2015
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Bloomberg Businessweek Middle East

What does Iran's nuclear agreement mean for the future of the Middle East?

p38

Algeria DZD 215	Egypt EGP 18	Jordan JOD 2	Lebanon LBP 4000	Oman OMR 1	Saudi Arabia SAR 10	UAE AED 10
Bahrain BHD 1	Iraq IQD 3200	Kuwait KWD 0.75	Libya LYD 3.5	Qatar QR 10	Syria SYP 200	Yemen YER 600


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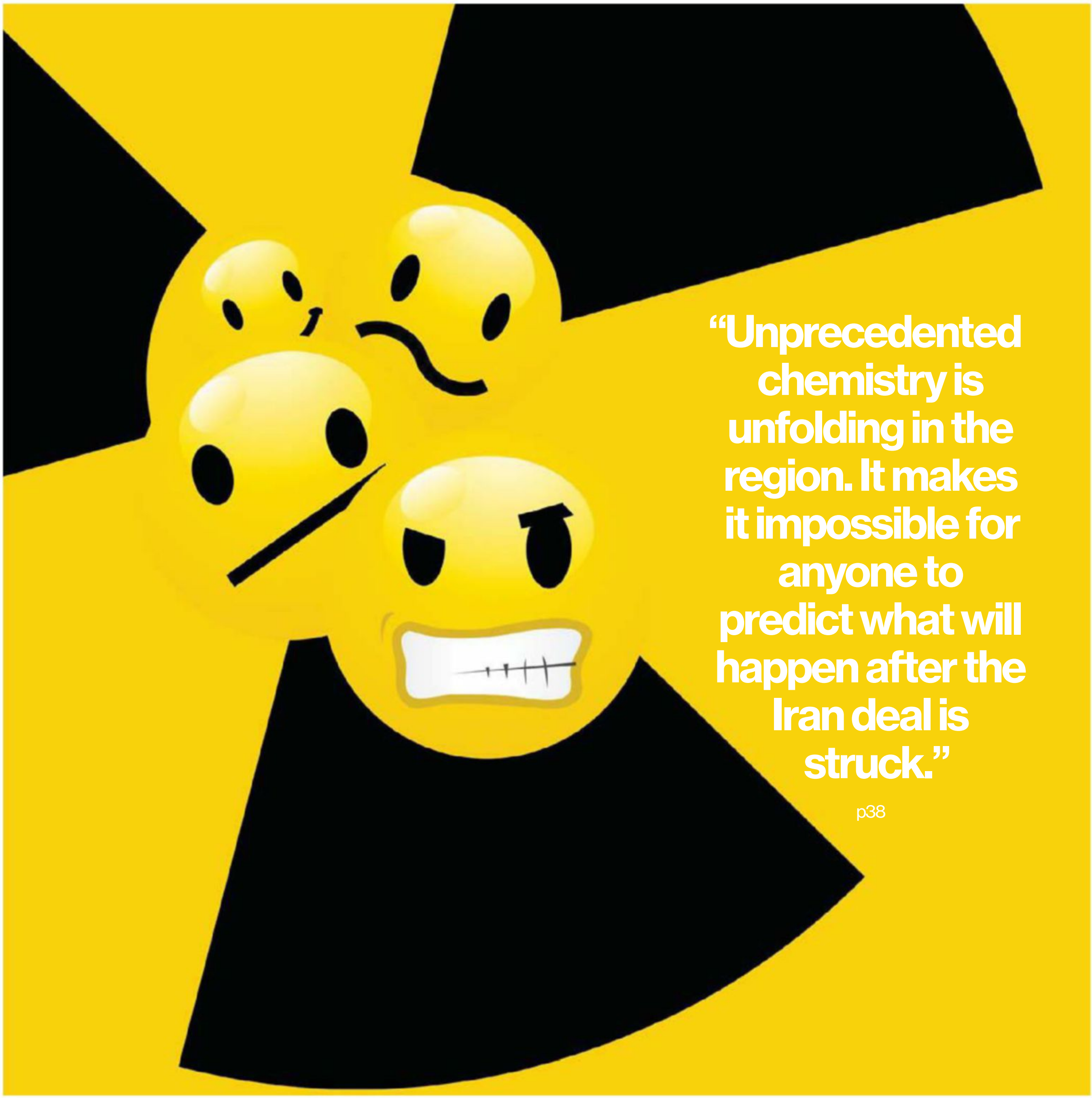

COVER AND ILLUSTRATION BY SJC

Bloomberg Businessweek Middle East
1 August — 15 August, 2015

Cover Trail

How the cover gets made

"There's only one thing that was ever going to appear on the cover for this issue: the Iranian nuclear deal."

"Iranian what now?"

"Nuclear deal."

"Iran's done a deal to get nuclear weapons? Ahhhhhhhh!"

"No, calm down! It's agreed to let the international community inspect its nuclear programme in exchange for an end to economic sanctions."

❶ "Phew! Things got very scary there for a second. Sounds like good news. How about this?"

"Well, you'd think it was good news but it's a bit more complicated than that."

"Ugh! Everything's always "a bit more complicated" with you. What's the story?"

"Well, while the lifting of sanctions on Iran should boost its economy, it'll also provide it with more resources to exert its political influence around the region. Many in the region–particularly the Gulf states–are a bit apprehensive about this."

"Gotcha!"

"Also, the prospect of Iran's huge oil and gas resources having access to global markets again means that the recent glut that's helped push prices down should get gluttier. Lower energy prices aren't exactly what the rest of the region's oil and gas exporters are looking for at the moment."

❷ "My ears hurt. Okay, Smiley face doesn't feel so smiley any more. How about ambivalent face (like me towards you right now)?"

❸ "The face of unadulterated ambivalence–I like it!"

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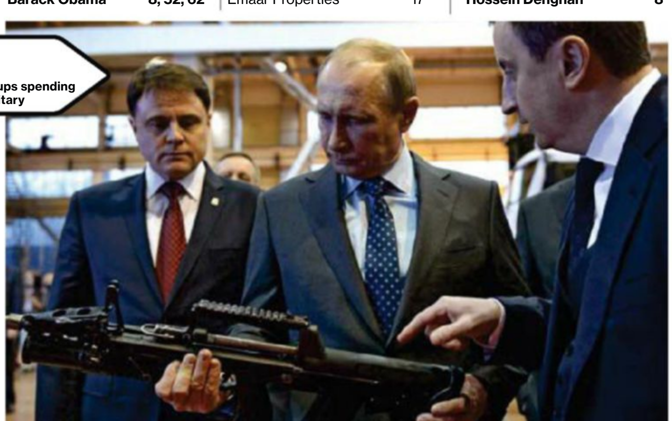

Bloomberg Businessweek Middle East

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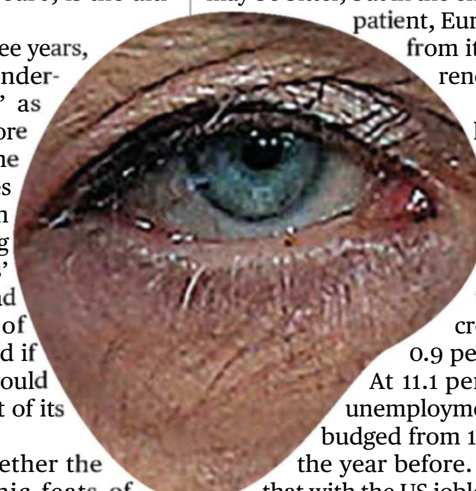
AFP (3); SHUTTERSTOCK

Merkel's Mean Vision of Europe

By Michael Schuman

More than a first among equals, she's the most dominant leader in the eurozone with virtual veto power over decisions

"The lesson of this crisis is more Europe, not less Europe," Angela Merkel said in 2012 as the integrity of the region's monetary union was threatened by financial instability, touched off by Greek debt, that was spreading through the eurozone's weaker economies. By "more Europe," the German chancellor meant a deepening of the continent's noble mission—peaceful integration to ensure prosperity and democracy—of which the common currency, the euro, is the ultimate symbol.



In the intervening three years, Greeks have come to understand "more Europe" as something different: "more Germany." That was one of the few clear messages sent in a referendum on 5 July that had everything to do with Greek voters' views on how Merkel had imposed her vision of Europe on the zone and if their troubled nation would be better served as part of its grand project, or not.

One can debate whether the Greeks, through titanic feats of economic mismanagement and political hubris, have dug their own grave or merely provided others the shovel. But even though Prime Minister Alexis Tsipras has committed to another deal, attention has deservedly shifted from the fed-up and diminished debtors to their lenders. Of course, that's the European Union, a complex organism with numerous regional and national leaders that, in league with the International Monetary Fund, has so far committed $265 billion in bailout funds to Greece. But this is how the EU really works: Germany is the monetary union's dominant economy, and its chancellor is the region's dominant leader, with virtual veto power over zonewide decisions. That puts the spotlight squarely on Merkel. And what it's revealed, despite her calm but firm entreaties, is an economic bully.

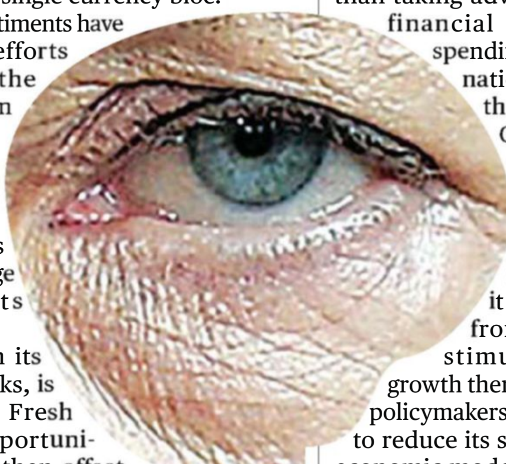
Germany and other eurozone countries backed the financing of bailouts, and in return imposed reform on its recipients and other weak member economies. Anything requiring Germany to change its ways, however, went nowhere.

The centrepiece of Merkel's cure for Europe was fiscal retrenchment. It was an almost maniacal drive for reduced budget deficits and debt levels—the targets for which were already enshrined in eurozone agreements—combined with reforms to labour markets and welfare programmes. Merkel believed that such policies would strengthen the eurozone's financial position and competitiveness. The medicine may be bitter, but in the end, like an ailing patient, Europe would rise from its sickbed with renewed vigour.

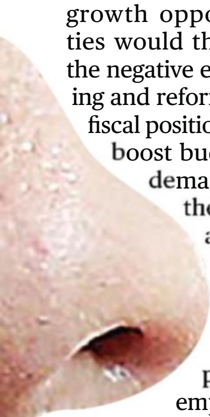
The result has been stagnation. After contracting for two years, eurozone gross domestic product crept up less than 0.9 per cent in 2014. At 11.1 per cent in May, unemployment has barely budged from 11.6 per cent the year before. (Compare that with the US jobless rate of 5.3 per cent.) Greece, of course, has had it the worst. The terms forced on the Greeks in return for bailouts were politically, socially, and economically unreasonable. The pace and extent of the mandated budget overhaul were extremely severe, especially amid a global downturn. Through all its pain—astronomical unemployment, a shrinking economy—the burden of Greece's debt has increased, to 177 per cent of GDP in 2014 from 103 per cent seven years earlier.

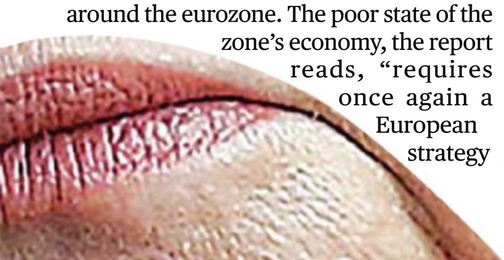
Merkel's insistence on a hard line isn't masochism, just politics. One poll released in early July showed that 85 per cent of Germans surveyed opposed making

concessions to Greece. Merkel has faced resistance to a softer line from within her ruling coalition. Amid the recent bailout negotiations, one lawmaker from Merkel's Christian Democratic Union derided the eurozone's policy towards Greece as a "financial carousel." Her hard-nosed finance minister, Wolfgang Schaüble, once said that Greece "cannot be a bottomless pit." Such attitudes are fostered by a widespread perception among Germans that Greece is unworthy of their aid. "*NEIN*," blasted a headline in the tabloid *Bild* earlier this year. "No more billions for greedy Greeks!" it insisted. Even the referendum results produced little sympathy. Shortly after the vote, Georg Fahrenschon, head of the association of German savings banks, said "the Greek people have spoken out against the foundations and rules of the single currency bloc."



Such sentiments have hindered efforts to tackle the crisis from the start. For the eurozone to emerge from its woes, change across its economies, not only in its weakest links, is necessary. Fresh growth opportunities would then offset the negative effects of painful restructuring and reform. Countries with stronger fiscal positions such as Germany should boost budget spending to increase demand. Greater joint action at the European level is critical as well. A March study by the Brussels-based think tank Bruegel outlined how the integration of national markets is far from complete. Governments still employ conflicting regulations to protect corporate champions and hamper the formation of Europewide labour and service markets. For example, uncoordinated pension schemes and tax codes inhibit the movement of workers around the eurozone. The poor state of the zone's economy, the report reads, "requires once again a European strategy to boost growth and employment, in which the single market has a central role."





While Merkel has thumped her fellow leaders into painful reforms, she has dodged needed changes at home. In 2012 she pressed her neighbours into a new fiscal compact that tightened oversight of national budgets. Yet rather than taking advantage of German financial strength to increase spending, Merkel balanced the national budget in 2014 for the first time in 45 years. Germany runs a tremendous current account surplus—7.5 per cent of GDP in 2014, compared with 2 per cent for China—which means it should be buying more from the rest of Europe, stimulating exports and growth there. Many economists and policymakers have called on Germany to reduce its surplus by reforming its economic model. "Policies to promote more domestic investment and demand would be good for the German economy and for the global economy," US Secretary of the Treasury Jacob Lew said in a 2014 visit to Berlin.

Achieving that, however, would entail altering Germany's own economy by, for instance, getting coddled service industries to increase productivity and wages. A 2014 study of the German economy by the Organisation for Economic Co-operation and Development argued that such steps would also help Germany by boosting potential growth as its labour force ages. The country's leaders, however, see its surplus as a measure of its economic superiority and react angrily to any criticism. "It would be absurd to discuss whether German competitiveness should be reduced," Jens Weidmann, president of the German central bank, said in April.

That German view—the eurozone's problems aren't of Germany's making—has dictated Berlin's approach toward the crisis. Merkel has played the unrelenting taskmaster, treating her beleaguered neighbours not as partners, but as spoiled children who could be set right only by the rod. Last year, French President François Hollande and Italian Prime Minister Matteo Renzi advocated greater flexibility in the austerity programme to promote job creation. "If everyone does austerity, we'll have even slower growth," Hollande groused in October. Merkel would have none of it. "We have had times in Europe with very high deficits and yet no growth, so we must learn from the past," she said. When some European leaders proposed "eurobonds," instruments backed by the zone to ease financing costs on individual states, Merkel rejected the idea.

Even the IMF, in a June report on Greece's finances, deemed the country's debt load "unsustainable" and recommended relief. Merkel accepted only minor concessions to bailout demands, insisting that the Greeks impose further tax hikes and public spending cuts. She labelled her offer "generous."

Is it any wonder, then, that the Greeks said no? They may be only the first. Joblessness and recession have persuaded other voters in Europe to seek a new course. Gaining popularity in Spain, where unemployment is 22.5 per cent, is the leftist political movement Podemos, which also seeks a fairer deal from the rest of Europe. "The problem isn't Greece, the problem is Europe," Podemos's chief, Pablo Iglesias, said in late June. In Italy, Beppe Grillo, leader of the anti-establishment Five Star Movement, called for a referendum to decide if Italy should remain in the monetary union.

Europe's leaders characterised a no verdict in the Greek referendum as a vote against the idea of Europe. In fact, the resounding no was a vote against the existing harsh reality of membership in present-day Europe. Unless Europeans act as partners in their grand quest for solidarity, they will end up with less Europe, not more. B

SEAN GALLUP/GETTY IMAGES

To read Noah Feldman on how ISIS's succession plan could end up destroying it, go to

Bloombergview.com

Saudi Arabia Finds Common Cause With Russia

As disillusionment with the US and Barack Obama grows, the kingdom is diversifying its interests

The US narrative about Russia is that it's a waning power run by an overly ambitious dictator that is doomed to isolation and diminishing global influence. That's not how an important US ally sees it, however, judging from the $10 billion deal a Saudi Arabian state investment fund has signed with the Russian direct investment agency.

The Public Investment Fund, which has big holdings in Saudi Arabia's biggest non-oil companies (including 47 per cent of the chemicals and steel conglomerate Saudi Basic Industries), is setting up a partnership with the Russian Direct Investment Fund. The state entity has $10 billion in capital that it can invest in Russia alongside foreign partners. As part of the deal, the Saudis have agreed to invest $10 billion in Russian agriculture, health care, retail, transport and real estate. According to Kirill Dmitriev, the chief executive of the Russian Direct Investment Fund, seven projects have already been approved.

The deal follows a visit to the St. Petersburg Economic Forum by the son of King Salman, Mohammed bin Salman, who is defence minister and deputy crown prince. The prince invited President Vladimir Putin to visit Saudi Arabia and conveyed to the king an invitation from Putin to visit Russia.

Russia and Saudi Arabia have rarely seen eye to eye. The Saudis are Russia's major competitors in the oil business: Russia is now fighting for market share in China. In the Middle Eastern wars, the two countries are aligned with the opposing sides. Saudi Arabia has worked hard to destroy Bashar al-Assad's regime in Syria, a Putin ally. The Saudis are enemies of Iran, and Russia has just agreed to revive a deal to supply S-300 missiles to the Tehran regime that had been scuppered by international sanctions. Saudi Arabia is the second biggest buyer of weapons in the world—largely from the US—but it has never bought from Russia, the second-biggest seller.

One reason for the warming of ties is that Saudi Arabia wants Russian help in building 16 nuclear power plants, and the prince signed a tentative agreement in St. Petersburg. The Saudis probably were reluctant to approach the US, which is trying to prevent a nuclear race in the Middle East. The Moscow visit was an opportunity for Prince Mohammed to position himself as more flexible and open than other, traditionally pro-US members of the Saudi royal family, such as Foreign Minister Adel Al-Jubeir and crown price Mohammed bin Nayef, according to Bruce Riedel of the Brookings Institution. "The royal family is disillusioned with President Obama and his policies in the region," he wrote. "Becoming the advocate of diversifying Saudi interests beyond the United States is a popular move for Prince Mohammed to make."

A veiled warning to the US was clearly among the goals of Price Mohammed's Russian trip. Abdurahman Al-Rashed, general manager of Saudi-owned Al-Arabiya television station, wrote in *Asharq Al-Awsat*, a newspaper with close ties to the Saudi establishment: "In my opinion, the most important feature of the Deputy Crown Prince's visit was that it was not customary; it took place at a time when the United States and its European allies have decided to economically boycott Russia, sanctioning Moscow over events in Ukraine. This time, the Saudi government took an unusual step and decided to do the opposite: rekindle its relations with Moscow, grow business ties, and sign agreements and deals in vital fields such as gas and nuclear and military technologies. This is one of the rare times that Riyadh has taken an opposing line to Washington. But the reason is clear: the Saudis who supported the Western position to boycott Iran for 20 years have discovered that Washington betrayed them when it decided to collaborate with Tehran, without coming to an understanding with its partners who had joined the initial boycott."

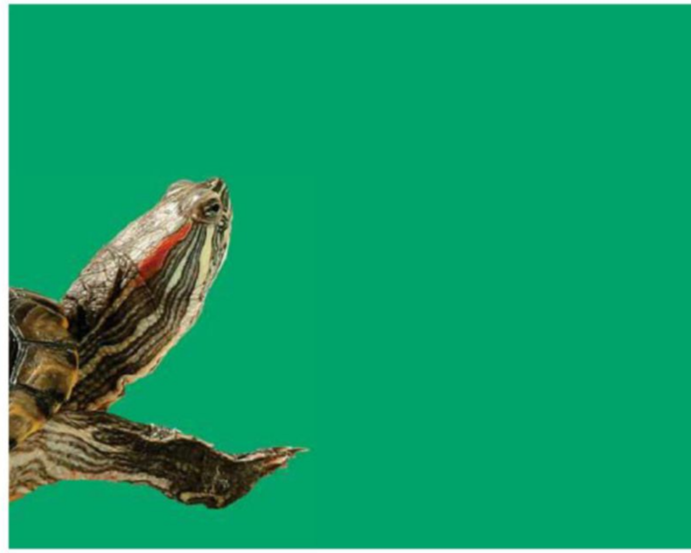
This feeling of betrayal apparently has led the Saudis to seek some balance, a second partner with an interest in containing Iran, and perhaps prevent a Russia-Iran alliance. Iran's defence minister, Hossein Dehghan, visited Moscow in April, and his discussions with his counterpart Sergei Shoigu apparently touched on broader military cooperation than just the S-300 missiles.

Putin probably is flattered by the attention he's getting from the major Middle Eastern players. Russia hasn't been in such high demand in the region since the era of proxy wars between the US and the Soviet Union. Now, both Iran and Saudi Arabia are looking for a second centre of gravity to counterbalance the US.

As for Putin, he is willing to work with anyone to show the US that the world is no longer unipolar and that Russia is a force to be reckoned with. His alliances are purely situational, and that's an advantage his regime has over the Soviet Union, which was constrained by ideology. —*Leonid Bershidsky* B

AFP (2)

The Slowest



▶ **Some economists think the US upturn could last four more years**

▶ **"I call it the Rodney Dangerfield expansion"**

It may not seem like much of a recovery to most Americans, but the current economic expansion could prove to be the longest in more than 150 years. Low inflation, healthy consumer finances, and pent-up demand for housing mean that the recovery could withstand any fallout from the Greek crisis and has room to run having entered its seventh year in July. "There's a high probability that we will exceed the 10-year expansion of the 1990s," says Allen Sinai, chief executive officer of Decision Economics. If that happens, unemployment would drop below 5 per cent, from about 5.5 per cent now; corporate profits, already at record levels, would rise further; and the stock market would reach new highs, according to Sinai.

Those outcomes would depend on the ability of the Federal Reserve to raise interest rates without upending financial markets and squelching growth. Many past recoveries were cut short when the central bank tightened credit to prevent overheating. Most Fed officials expect to raise interest rates this year for the first time since 2006.

The expansion has already lasted longer than the postwar average of just under five years. It's been marked by ebbs and flows as the US was buffeted by everything from a government shutdown in Washington to a tsunami in Japan that disrupted global trade.

The recovery has also been the weakest of the post-World War II era, with annual growth averaging 2.2 per cent, below the 2.8 per cent pace of the previous expansion and the 3.6 per cent recorded in the 1991-2001 upturn. Three out of five Americans polled by Fox News in May said the US was still in recession. "I call it the Rodney Dangerfield expansion," says David Rosenberg, chief economist at Gluskin Sheff & Associates, a wealth manager, alluding to the late comedian's trademark line, "I don't get no respect."

The expansion's modest pace has kept inflation down, allowing the Fed to hold its target for short-term interest rates near zero since 2008. Moderate growth also means that the US has avoided debt-driven excesses that can bring an upswing to an abrupt halt, as happened when the housing boom went bust. "The curse of the economic cycle to date, which has been its sluggishness, is now turning into a blessing, resulting in greater longevity," says Carl Riccadonna, chief US economist for Bloomberg Intelligence.

In a vote of confidence that demand will prove durable, **General Motors** in April said it will spend $5.4 billion on its US plants in the next three years as it prepares to build a series of new models. GM's expansion comes just as US consumers are opening their wallets after six years of fortifying their finances. At more than six times personal income, household net worth is the highest since before the recession as the stock market and property prices have rebounded and savings have gone up. Consumer delinquencies on credit cards and auto and other loans are near record lows.

Purchases of new homes rose in May to the highest level in seven years, the Department of Commerce reported on 23 June. "We're still in the early stages of a multiyear, slow-but-steady housing recovery," Stuart Miller, chief executive officer of **Lennar**, the second-largest US homebuilder, said on a 24 June conference call.

Homebuilding, business investment, and consumer purchases of durable goods such as appliances and furnishings account for just under 24 per cent of gross domestic product, Rosenberg says. That's well below the average 28 per cent peak reached in previous cycles, suggesting more spending ahead. The low level of inflation gives longer life to the expansion. As measured by the personal consumption expenditure price index, the Fed's favourite gauge, the inflation rate was just 0.2 per cent in May from the

CAROLINE TOMPKINS (4)

Russia marches through recession with military expenditure 12

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Steadiest Recovery

same period in 2014, below the central bank's 2 per cent target.

Wages have started to pick up but are still below levels Fed officials consider normal. The amount companies spent on wages and benefits such as pensions rose 2.6 per cent in the first quarter from a year earlier. A 3 per cent to 4 per cent increase is more typical for the US, according to Fed Chair Janet Yellen. "While the slow pace of wage gains is painful for workers, it is helping to keep inflation down and thus to postpone again and again the need for the Fed to raise interest rates in a way that would cut short the expansion," Robert Gordon, a professor at Northwestern University, says. Gordon, a member of the National Bureau of Economic Research's Business Cycle Dating Committee, which determines when recessions begin and end, sees the expansion lasting three years more. Gluskin Sheff's Rosenberg sees four more years.

At 5.5 per cent in May, the jobless rate is down from the 10 per cent mark it hit in 2009 and is closing in on the 5 per cent to 5.2 per cent level most Fed officials deem equivalent to full employment. Robert Hall, an economics professor at Stanford and chairman of the NBER business cycle committee, says that unemployment can fall further without generating much inflation as the improving economy draws more Americans into the labour force. "Don't forget that the unemployment rate reached a low of 3.8 per cent in 2000," he wrote.

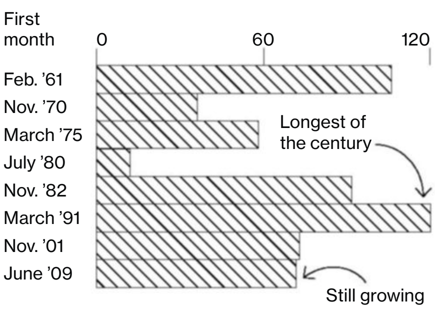
Harvard professor and fellow committee member Martin Feldstein is more cautious. "I do see increased risks that have resulted from the exceptionally low interest rates," he says. "Even if rates normalise slowly and without substantial inflation, there could be substantial financial losses" in the markets.

Since 1950 the US has had a recession at the start of every decade except the current one, notes Mark Zandi, chief economist at Moody's Analytics. "If that bit of economic astrology holds, the next one will be in 2020," he says. "I wouldn't argue with that." —*Rich Miller and Shobhana Chandra*

The bottom line Low interest rates, skimpy wage hikes, higher savings, and increased spending are prolonging the recovery.

Room to Run

Length in months of US expansions since 1961



DATA: NATIONAL BUREAU OF ECONOMIC RESEARCH

Diplomacy

In Its Fight for Allies, Japan Writes Cheques

▶ Japan invests in its neighbours to keep the Chinese at bay

▶ "The competition for political influence ... is likely to accelerate"

One of Japanese Prime Minister Shinzo Abe's foreign policy goals is to team up with other Asian countries threatened by the rise of China. He's expanding Japan's aid for big infrastructure projects in Asian nations. In some cases the Japanese government finances these ventures through grants and loans; in others the Asian Development Bank, which has assets of $116 billion, counts 67 member countries, and is effectively controlled by Japan, lends the money.

Japan and the ADB have been funding projects since 1966, but the pace has picked up in the past year. On 4 July, at a summit of five Mekong River nations, Abe pledged 750 billion yen ($6.1 billion) in aid, part of his plan to increase by 25 per cent Japanese and ADB funding for infrastructure projects. The ADB lent more than $10 billion last year in Asia, a 17 per cent increase from 2013. That, the ADB promises, is just the start of its new, more generous policy. In the spring, the bank unveiled plans to increase ▶

annual operations by 50 per cent. "I want ADB to be stronger, better, and faster," the bank's president, Takehiko Nakao, said in a 4 May speech.

The projects Japan and the ADB have agreed to help fund include a port and an industrial zone in southeastern Myanmar, a highway in Vietnam's Mekong Delta, a bridge over the Mekong River in Cambodia, a subway line in Jakarta, a rail line in Thailand, the Delhi-Mumbai Industrial Corridor in India, and roads for the Indian state of Madhya Pradesh.

The Chinese didn't have a development bank of their own until President Xi Jinping created an alternative to the ADB in June with the opening of the Asian Infrastructure Investment Bank, which has $100 billion in capital and 57 members. The US and Japan declined to join. For Japan, the rise of the AIIB means "the competition for political influence with China is likely to accelerate," says Euan Graham, director of the international security programme at the Lowy Institute for International Policy in Sydney.

Some analysts are already predicting the Japanese push will lose momentum. The power of the ADB will wane, says Hong Hao, chief China strategist at Bocom International Holdings, an investment bank. The bank's "trajectory has largely been parallel with the economic development of Japan," he says. Abe has provided a short-term boost, but with Japan's population shrinking and the government heavily in debt, the ADB "is losing its relevance because of Japan's declining economic might." Toshiyuki Doi, a senior adviser in Bangkok with Mekong Watch, a Tokyo-based nongovernmental organisation, says, "Japan cannot keep up with China." Just to play it safe, 42 states belong to both the ADB and the AIIB.

$100b

Capital available to China's Asian Infrastructure Investment Bank

Kraisin Vongsurakrai, director of the Thailand Board of Trade and secretary general of the Thai-China Business Council, says, "Thailand welcomes both China and Japan. But China still takes the lead."

Abe is relying on Asian leaders who need infrastructure funding but are wary of China, which is building artificial islands and an airstrip in the disputed waters of the South China Sea, where Brunei, Malaysia, the Philippines, Taiwan, and Vietnam all have claims. Abe can also count on the long track record of Japanese corporate spending in the region, where his country's multinationals account for 12 per cent of foreign direct investment, making Japan the largest source of outside funding. China lags behind at just more than 2 per cent, says the Lowy Institute's Graham: "When you look at the investment picture, Japan is the giant. China cannot compare."

Asians can benefit from the Japan-China rivalry. The strategy of the Association of Southeast Asian Nations is "Let's hedge our bets and try to play off as many countries as possible," says Chia Shuhui, an analyst in Singapore with BMI Research. "The more the merrier." —*Bruce Einhorn, with Suttinee Yuvejwattana, Ting Shi, and John Boudreau*

The bottom line Japan is expanding aid to Asia before China's new development bank embarks on Asian infrastructure programmes.

Defence

Putin Turns To Military as Recession Continues

▶ **Kremlin plans to spend $426 billion on defence through 2020**

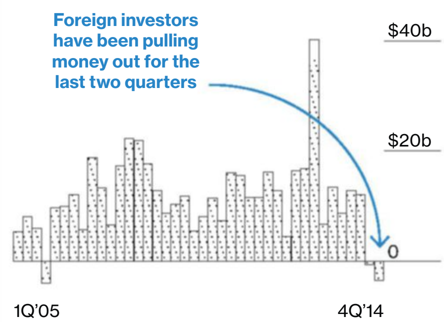
▶ **"An efficient symbiosis of feudalism and open markets"**

Greek Prime Minister Alexis Tsipras, whose country is fighting to stave off financial collapse, was a guest of honour at Vladimir Putin's annual investment showcase, on 18-20 June, along with top officials from China and Myanmar. The event in Putin's hometown of St. Petersburg drew top European oil executives, such as **BP**'s Bob Dudley, and a few US business leaders, as well as former British Prime Minister Tony Blair. But the attendance paled in comparison to past forums, when banking titans such as **Goldman Sachs** Chief Executive Officer Lloyd Blankfein queued up to pay their respects to Russia's president.

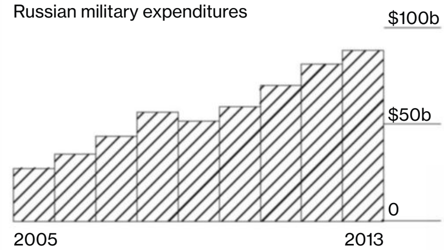
The smaller number of heavyweights at the forum underscores the isolation of Putin and Russia. Foreign direct

Revving Up the War Machine

Net foreign direct investment in Russia



Russian military expenditures



FIGURES IN US DOLLARS
DATA: CENTRAL BANK OF THE RUSSIAN FEDERATION, WORLD BANK

investment has declined for the last two consecutive quarters. The economy is expected to spend this year and next in recession, assuming oil stays stuck around $60 a barrel. The rouble is down 40 per cent from its 2013 highs. Putin's plan is to wait for oil to rebound, and keep expanding the power of state enterprises, which now account for more than half the economy, up from 30 per cent when he became president in 1999.

There's one area of growth, though, that some analysts see as Putin's version of a stimulus: Military spending. "It's clear that the efficiency of the military-industrial complex is the most important source of economic growth," Putin said at a military forum on 16 June.

On 12 May, Putin signed documents creating what he called the "industrial battalions" programme, which will give thousands of draftees the option of working in defence enterprises instead of joining the regular military. According to federal budget accounts, after years of chronic funding problems for weapons makers, Russia has started to prepay for goods and services it buys from the defence industry, which employs 2.5 million Russians.

Defence, national security, and law enforcement now eat up 34 per cent of the Russian budget, more than double the share in 2010. That dwarfs the

VITALY V. KUZMIN

18 per cent spent by the US last year on defence and national security, according to the Washington-based Center on Budget and Policy Priorities. Still, Americans spent $615 billion last year, while the Russians spent $84 billion.

"The government has two urgent tasks: strengthening security at all levels of society and promoting innovation to end the macroeconomic stagnation," says Ruslan Pukhov, director of the Centre for Analysis of Strategies and Technologies and a member of a defence ministry advisory board. "The solution to both problems is to intensify the development of the military-industrial complex."

State-run defence contractors stand to benefit: **United Aircraft**, which makes Sukhoi and MiG fighter jets; **United Shipbuilding**, now building a new fleet of destroyers; and **Uralvagonzavod**, maker of the brand-new T-14 Armata tank. (Each tank costs about $4 million to $5 million to make. Mass production won't start anytime soon.)

Putin's former finance minister, Alexei Kudrin, has voiced his opposition to plans to spend 23 trillion roubles ($426 billion) through 2020 on defence. Kudrin says the defence buildup does little to solve Russia's structural problems and the crisis it faces.

Putin, who warns of a threat from the West and the need for more self-sufficiency, has vowed to spend the full amount budgeted for the military. He's already ended the Russian military's purchases from abroad, so the army will buy only from Russian suppliers.

The reformers in Putin's cabinet would prefer to see their boss cut defence spending and focus instead on overhauling the courts, cutting red tape for small businesses, and stamping out corruption, according to government sources. In his keynote address at the forum, Putin addressed the need to ease bureaucratic barriers that business faces but did not provide any concrete steps for doing so. Instead, he said that the economic crisis predicted by many at the end of last year didn't materialise. His government "stabilised the situation," even though the economy slid into its first downturn in six years. Putin said at an 18 June meeting with executives that he expects energy prices to remain low for one to two years, but Russian business has adapted to the situation.

He's confident energy prices will rise again. As he said at his annual press conference in December, "even if energy prices remain low or continue to decline, there will come a time when energy prices will resume growing when the global economy and the demand for energy grow. I'm absolutely confident that this will happen." High oil prices and a state-dominated economy delivered average annual growth of 7 per cent during his first two terms, and Putin figures they will bring prosperity back to Russia.

"Putin's model is an efficient symbiosis of feudalism and open markets," says Andrey Movchan, a longtime Russian investment banker who's now an analyst at the Carnegie Moscow Center, the Russian branch of the Washington research centre. "But his view of the world underestimates the speed of modern development. We're rushing into a phase when energy will cost a degree less and intellectual property a degree more." *—Henry Meyer, Andrey Biryukov, Evgenia Pismennaya, and Ilya Arkhipov*

Putin's Economic Solution

The bottom line Putin is relying on oil exports, state-owned companies, and record defence spending to pull Russia out of recession.

Technology

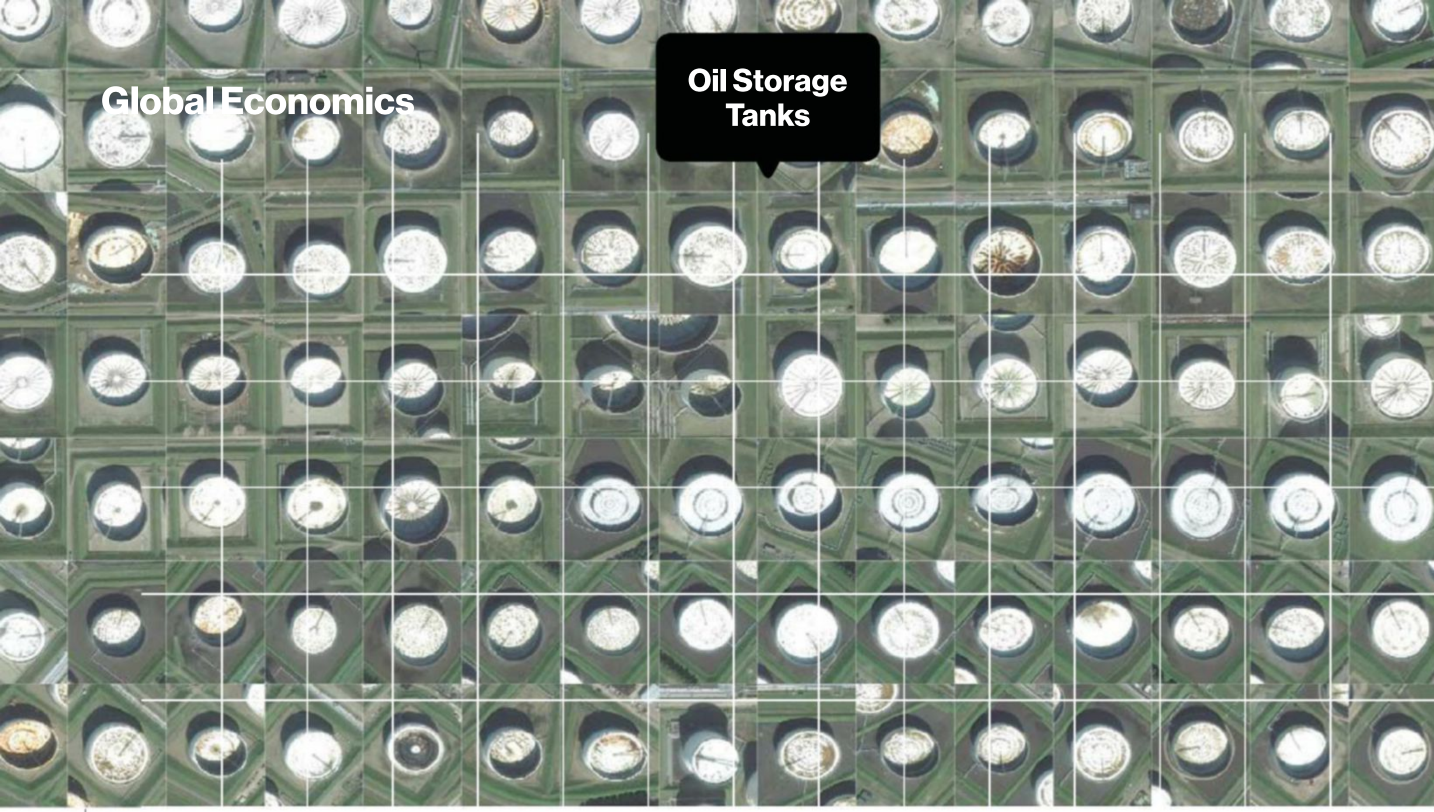
How Satellite Photos May Change Economics

- Tiny, cheap satellites will orbit the globe recording everything
- They could "remake the whole stock and economic research industry"

In 52 seconds, a shoebox-size satellite covers the distance from Los Angeles to Las Vegas and captures high-resolution photos of the beaches, freeways, mountains, and deserts 400 kilometres below.

With more than 50 such satellites, **Planet Labs**, a San Francisco startup founded in a garage by former NASA engineers, now has one of the largest-ever imaging fleets aloft, each orbiting the globe every 90 minutes. Together they can photograph most of the planet every day.

Embedded in the terabytes of photos the satellites beam to earth are clues to the global economy. Big data software can now quickly extract economic indicators from photos of farms, factories, and ports. Pictures of retailers' parking lots can help estimate sales and customer ▶



These images show oil storage facilities around the globe. Crude is stored in massive tanks whose capacity can be estimated from the shadows they cast. How full they are can be gauged from the shadows on the interior lids, which move up and down based on the amount of oil in the tank.

◀ traffic. Satellite images of activity at 6,000 Chinese factories are being translated into a new manufacturing index. Energy investors will soon be able to access data based on satellite photos of oil tank farms worldwide to know if stocks of crude are falling or rising.

"This is one of those really rare game changers that come along very infrequently but has the ability to remake the whole stock and economic research industry," says Nicholas Colas, chief market strategist at Convergex Group, a brokerage in New York. "We still make monetary policy in this country based on surveys of a few thousand households and businesses." That approach will continue: The US Department of Labor's Bureau of Labor Statistics and the US Department of Commerce's Bureau of Economic Analysis say they don't use satellite data and don't plan to.

Millions of photos are useless, of course, until they become data. That transformation is the goal for startups such as **Spaceknow** in San Francisco. Chief Executive Officer Pavel Machalek says imagery eventually will track all the world's trucks, ships, mines, and warehouses to attain what he calls "radical economic transparency."

Orbital Insight founder James Crawford, whose team worked on NASA's Mars rovers, wants to create the "macroscope" that will alter the world as microscopes did centuries ago. The Palo Alto company uses advanced image processing and algorithms to track national and global trends. One product estimates sales at 60 US retail and restaurant chains. Others generate a global poverty map and predict illegal deforestation by watching for road construction and other signs of logging. Customers include hedge funds, banks, government agencies, nonprofits, and multinationals—"anyone who needs to understand the world at scale to make decisions," Crawford says. (Orbital has received funding from Bloomberg Beta, a venture capital division of Bloomberg LP, owner of *Bloomberg Businessweek*.)

Declassified US Air Force satellite imagery has allowed economists to measure the brightness of cities at night, a proxy for the size of the power grid and the economic activity it generates. Myanmar, one of the poorest nations in the world, is emerging from a half-century of military rule. The country's official data show growth that's been averaging 10 per cent a year for more than a decade. Brown University economists studied the lights glowing at night across Myanmar and concluded the power grid wasn't generating enough electricity to support 10 per cent growth. Instead, the Brown University researchers estimated the economy was expanding by 3.3 per cent on average.

Xavier Sala-i-Martin, an economics professor at Columbia University, used night-lights data to question World Bank estimates that 30 per cent of the globe lives in poverty. He says satellite photos suggest the number is only 6 per cent. Some critics point out the data on electric light could indicate industrial activity instead of lower poverty.

Andrew Dabalen, lead economist for the poverty global practice at the World Bank, says that even though satellite data has "a lot of promise, it's not a substitute for having face-to-face data collection directly from households." So World Bank researchers are looking at ways to pair satellite images with census surveys to better estimate income. "It's not perfect, but you can get a rough idea how the poor and rich are distributed across space in a country," he says.

Wall Street is getting interested. Rich Abbe, co-founder of **Iroquois Capital Management** in New York, was intrigued enough by analysis from **Remote Sensing Metrics** that Iroquois bought a stake in the Chicago company and started using its tools. Recently he used its reports on parking-lot totals to invest in consumer companies such as Chipotle Mexican Grill and J.C. Penney. And he sees more possibilities in other industries—including mining and oil rigs—now that he has "an interesting macroview." —*Jeff Kearns, with Kelly Bit*

The bottom line The earth is quickly being encircled by hundreds of tiny satellites photographing economic activity.

COURTESY ORBITAL INSIGHT

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Ready for a Fall

Up to
20%
projected drop in Dubai home prices in 2015

▶ Market is said to be better prepared than before 2008's crash

▶ "We expect the current correction to be less excessive"

Faced with predictions that Dubai home prices may drop as much as 20 per cent this year, analysts say the emirate's real estate developers and lenders are better prepared than when a crash in 2008 brought the city to the brink of bankruptcy.

In June, **Standard & Poor's** estimated that values may fall by as much as a fifth this year, while brokers **CBRE Group** and **JLL** see a 10 per cent decline. Still, builders and banks face less risk than they did six years ago, thanks to lending restrictions, a clampdown on speculation and greater dependence on rental income.

"The sort of swings in house prices we expect in the short term are lower than what we've seen in Dubai's recent history," says Franck Delage, director of corporate ratings for Europe, the Middle East and Africa at S&P. "We are not saying the market has matured yet, but we expect the current correction to be less excessive than in 2008-09."

Dubai's housing market has rarely known a moment of steady, modest growth since the emirate began to transform itself into a hub for business and tourism during the previous decade. Now prices are under pressure amid falling oil prices, weaker currencies in Europe and Russia and oversupply. Prices had been gaining at the fastest pace in the world before a 2008 collapse caused values to drop as much as 65 per cent and left the city almost bankrupt. The rebound turned into another spike in 2013 when prices jumped 35 per cent and again led the world's major markets, according to a survey by **Knight Frank**.

The rising values prompted the UAE Central Bank to take steps in early 2014 to curb mortgage lending and Dubai's government doubled the transaction tax in a bid to temper price increases that were pricing many out of the city. "Government measures to temper house prices definitely had an impact and the mortgage restrictions are a good way to limit exposure in the banks," says Matthew Green, head of United Arab Emirates research at CBRE.

Falling house prices are less of a concern for property developers than they were in 2009 because the companies have increased their reliance on recurring income such as commercial

> **"Government measures to temper house prices definitely had an impact and the mortgage restrictions are a good way to limit exposure in the banks." —*Matthew Green, head of United Arab Emirates research at CBRE***

and residential leasing, and have less cash tied up in projects under construction, says Delage. While thousands of houses and apartments are still being built, development has slowed from six years ago. Over the next three years about 65,000 housing units will be completed, compared with 45,000 finished in 2008 alone, says Green. Developers may also consider delaying the delivery of new projects until the market improves, he says.

Emaar Properties, Dubai's largest publicly-traded homebuilder, is working with the city government to develop a $2.7 billion residential and retail beach front project, it said in early June. Emaar is also working on the 6.5 million square-metre Dubai Creek Harbour project and the 11 million square-metre Dubai Hills development with government-owned **Meraas Holding**. Emaar is up 11 per cent in Dubai trading this year, while competitor **Damac Properties** gained about 19 per cent and **Union Properties** advanced 11 per cent.

Nakheel, the developer of palm islands off the coast of Dubai, has not started any residential projects this year. The company, which was at the centre of Dubai's debt crisis in 2009, is focusing on creating recurring income from residential and commercial leasing, it said in April. "The rental market is really stable," says Craig Plumb, head of Middle East research at JLL. "The majority of the expatriate population prefer to rent and the economy and the population are still growing, so demand is strong."

The drop in sale prices may prompt financial authorities to look again at restrictions introduced in 2014 on how much banks can lend to a buyer relative to a home's value. The regulations "are restricting end-users from getting into the market," Green says, "so the rules could be amended if the government wants to stimulate demand." *—Matthew Martin*

The bottom line Though Dubai property prices could fall by up to 20 per cent, measures taken since 2008 should limit the damage.

Antique Dealing

ISIS Plays The Antiquities Game

▶ **With oil revenue dwindling, extremist group rethinks smashing artefacts**

▶ **"They bring in their own trucks, their own bulldozers"**

The WhatsApp message showed photos of an ancient Mesopotamian vase worth $250,000, waiting to be bought. The recipient of the message, Amr Al Azm, replied that he was interested. How to proceed? A message from a different account followed. The vase could be smuggled through Lebanon.

Al Azm, a Syrian émigré and an anthropology professor in Ohio, was faking it, as he does when other photos of looted antiquities are sent to him in the belief that he's a collector or dealer. He's a detective–self-appointed–hoping to save some of the world's rarest and most vulnerable artefacts by tracking the antiquities trade of self-proclaimed Islamic State, aka ISIS.

Earlier this year, ISIS released videos of its members destroying ancient artworks at the Mosul Museum. Contrary to those images, ISIS was already imposing a 20 per cent tax on the works dug up by freelance looters and on what the dealers make selling them. After US-led airstrikes on refineries and tankers reduced the group's $1 million daily oil revenue by almost two-thirds, ISIS turned to Facebook and WhatsApp to publicise artefacts for sale. A spokesperson for both the social network and the messaging service says such posts violate their standards and are removed as soon as they are discovered. ISIS has also started to loot sites and broker its own trades. It's a growing player in the $3 billion global antiquities market, and knowingly or not, buyers are filling its coffers.

Al Azm, a professor at Shawnee State University, is chair of the Syrian Heritage Task Force, which was founded by the US-backed Syrian Interim Government to work with universities, museums, and Unesco to protect archaeological sites in Syria.

He says ISIS has set up what it calls the Archaeological Administration in the Syrian city of Manbij, near Turkey, to manage sales of the loot. "They bring in their own trucks, their own bulldozers, hire their own work crews, and pay them salaries," he says. The extremists have links to Turkish crime networks in the border towns of Gaziantep and Akcakale, according to Michael Danti, a professor of archaeology at Boston University who advises the US Department of State on looted antiquities from Iraq and Syria.

Once the artefacts are smuggled into Turkey, brokers sell them to dealers, and several things can happen. Less easily identified pieces are offered online almost immediately. Valuable, well-known pieces are sold privately to wealthy buyers. Deep-pocketed dealers buy valuable pieces to store them until law agents are less focused on looted art, a waiting game that takes years.

James McAndrew, who worked for 27 years for US Customs and Border Protection and the US Department of Homeland Security, doesn't expect major artefacts stolen by ISIS to emerge in New York, London, and Geneva for at least a decade. He does think rich residents of the Gulf region are already buying for private collections. "I'm pretty confident those pieces from Iraq and Syria are being sold to wealthy Saudis, Emiratis, Iranians," says McAndrew.

Archaeologists estimate that up to $300 million worth of antiquities are flooding the market through Turkey, Lebanon, and Jordan as ISIS sells its trove. Danti says he's seen a spike in uploaded photos of cuneiform tablets and stamp seals. The US International Trade Commission reports that from 2012 to 2013, when ISIS expanded, US imports of declared antiquities from Iraq jumped 72 per cent and those from Syria 133 per cent.

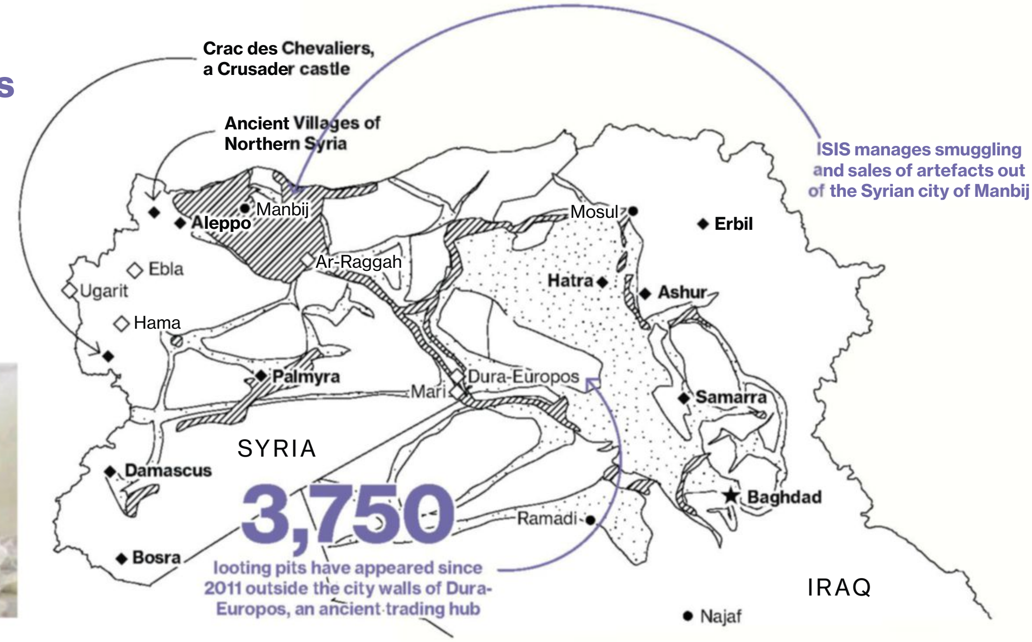
One concern is that the items may end up in freeports, facilities at international airports where a company or individual can store art or other valuables and defer tax payments and customs duties for years. The stored items don't have to pass through customs, and getting a search warrant for a storage facility in a freeport is almost impossible. "The best way to ▶

ILLUSTRATION BY NADIA M

ISIS's Grip on Antiquities

The insurgent group is close to major sites in Iraq and Syria that are highly valued by archaeologists and collectors

- ▨ ISIS control
- ⬚ ISIS presence
- ◆ UNESCO World Heritage site
- ◇ Candidate for World Heritage status



◀ stop this is by intercepting the items before they end up in the freeports," says Daniel Brazier, a special agent for investigations at Homeland Security. Danti says borders need to be secured to stop the outflow. "If we can hold the material inside Syria and Iraq, ISIL can't get the money for it," he says, using an alternative name for ISIS.

Al Azm says reestablishing rule of law is fundamental. "The trafficking industry in Iraq and Syria is like what Hollywood is for Los Angeles," he says. "Just like everyone is an aspiring actor in LA, everyone in Syria and Iraq is a dealer in some trafficked goods. The people won't stop hustling until the war ends." —*Sangwon Yoon, with Sarah Frier*

The bottom line With US airstrikes hammering its oil installations, ISIS has turned to selling antiquities to boost revenues.

Aviation

No Greek Tragedy for Middle East Airlines

▶ Lack of direct services from Athens boosts regional airlines

▶ "Greece is popular because of the traffic flows of the Greek diaspora"

Greece's demise in the last few years has provided a boost for airlines connecting Athens with Hellenic outposts around the world via the Arabian Gulf, while tapping demand from business travellers hunting for trade in far-flung regions.

With direct services in short supply since the breakdown of flag carrier Olympic Airways, **Qatar Airways** and **Emirates** are mopping up so-called friends-and-family bookings. Emirates offers daily flights between Athens and Dubai using Boeing 777-300ER aircraft, while Qatar Air deploys smaller planes but offers more frequencies on its Athens-Doha route, with three flights a day available from 1 June.

"Greece is popular because of the traffic flows of the Greek diaspora," says Hubert Frach, Emirates's sales chief for the Americas, Europe, Africa and Russia. "Links between Greece and emerging markets are growing as the economic downturn is forcing companies to look beyond traditional regions."

The location of the Gulf means eastbound flights to onward destinations such as Australia, home to the second-largest overseas Greek population, are favoured, though Emirates is also examining direct flights from Athens to North America, where connectivity is patchy outside the summer months. A combination of favourable ticket prices and close to 90 per cent occupancy, 10 points higher than the Emirates average, makes Athens one of the carrier's top routes, Frach says. The passenger tally on the service reached 224,000 in the year through March, swollen by double-daily services during some weeks last summer, according to Frach. Carrying seafarers for Greece's shipping industry is also lucrative, the executive says.

Capital controls in Greece—put in place on 29 June to limit cash withdrawals and online bank transactions—threw travel into disarray. **Ryanair**, the Irish low-cost carrier that serves 11 destinations in Greece, said it was letting customers buy tickets in cash until the controls were lifted.

Travel via the Gulf allows for direct onward services to a host of Asia-Pacific destinations, making it preferable to flying via more traditional hubs in London, Paris and Frankfurt. Extra services enhance connections to forward flights, with passengers transiting through the Gulf to and from Greek population centres such as Sydney, Melbourne and South Africa. About 11 million people of Greek descent live beyond the Mediterranean, according to official government figures.

Bail-out Beneficiaries

Seats to Greece offered in August

Emirates
13,000

Qatar Airways
19,000

Turkish Air
29,000

Athens has flights to just six cities beyond Europe and the Middle East, according to the airport's website. In Asia, only Beijing and Singapore have direct services, leaving the rest of the continent open to Qatar Air, Emirates and **Turkish Airlines**, which is building a Gulf-style mega-hub in Istanbul. Qatar Air will offer 19,000 seats to Greece this month, versus 13,000 at Emirates and 29,000 at Turkish Air.

The biggest Greek airline today is **Aegean Airlines**, a former regional carrier that expanded in the wake of the Olympic Airways collapse in 2009 and went on to absorb Olympic Air, a rump operation from the former flag carrier, in 2013.

Following the success of Emirates's Athens services, the Greek government has asked the Mideast carrier to consider extending the flights to the US using so-called fifth freedom rights, Emirates President Tim Clark said in June. Its Dubai-Milan route already continues

ISIS GROUP SOCIAL MEDIA/AP PHOTO; SOURCE: INSTITUTE FOR THE STUDY OF WAR, UNESCO; SHUTTERSTOCK

Greece attracted 22 million visitors in 2014, twice its own population

onwards from Italy. Frach says there are no immediate plans for Greece-US flights, while adding that Emirates will "work closely" with the Greek authorities to assess possible opportunities.

New York and Philadelphia are the only US destinations currently served direct from Athens, by Delta Air Lines and American Airlines respectively, with other locations requiring a stop in West European hubs. That's "definitely not popular with the Greek diaspora in the US, or those US clients wanting to join cruise ships in Piraeus," Clark says. Greece–which lured 22 million visitors in 2014, twice its own population–also remains a "powerful magnet for tourists," with Emirates seeing demand from China, the Indian subcontinent, Australia and the Middle East, Frach says. —*Deena Kamel Yousef and Richard Weiss*

The bottom line The Greek economy's problems have presented an opportunity for growth to Turkish Airlines, Emirates and Qatar Airways.

Renewables

The Oil Industry Gets a Little Greener in Oman

▶ Work is to begin on a massive solar project at Amal oilfield

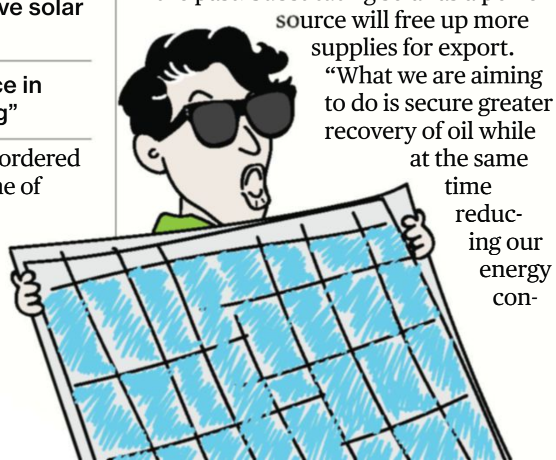
▶ "It's a real vote of confidence in GlassPoint, and it's quite big"

Oman's largest oil producer has ordered work to begin on what will be one of the biggest solar plants in the world, establishing the technology as an alternative to fossil fuels for coaxing crude out of the ground. **GlassPoint Solar** will build the facility at the Amal oilfield in southern Oman, the company announced in a statement on 8 July. Rows of parabolic mirrors covering two square kilometres will heat 1,021 megawatts of steam, which will be injected into underground reservoirs to reduce the viscosity of the crude produced there.

The development is a landmark both for its scale and because it shows the oil industry can tap renewables instead of its own supplies to power its own facilities. Those energy needs are vast and growing as the top grades of crude drain away, leaving producers dependent on heavier deposits. "It's a real vote of confidence in GlassPoint, and it's quite big," says Jenny Chase, chief solar analyst at Bloomberg New Energy Finance in Zurich. "If it's successful, it could spread solar-thermal technology to other applications where heat is used."

Petroleum Development Oman, which is 60 per cent held by the government, is sponsoring the project. **Royal Dutch Shell**, among the investors that helped GlassPoint of Fremont, California, raise $53 million in September, owns 34 per cent of the Oman oil company. **Total** owns 4 per cent.

GlassPoint says its technology can reduce energy needs by up to 80 per cent at heavy oil fields where energy is needed to lift supplies out of underground rock formations. Those fields are common in California, the Middle East and Venezuela, and they typically require energy equivalent to 1 barrel of oil for every five produced. It's natural gas or oil that has fed those power needs in the past. Substituting solar as a power source will free up more supplies for export. "What we are aiming to do is secure greater recovery of oil while at the same time reducing our energy consumption and costs," Raoul Restucci, managing director of PDO, said after the contract was signed in Muscat.



Green as it can be

Savings each year

5.6t

British thermal units of natural gas

300m metric tonnes

of carbon dioxide emissions

GlassPoint's innovation is to install agricultural greenhouses over the fragile parabolic mirrors that heat the water, protecting the units from violent sandstorms and winds that buffet the Middle East. Oman has been experimenting with the technology at a GlassPoint pilot project on the Amal field, where it has been producing about 50 tonnes of steam per day since 2010. That unit producing 7 megawatts of steam for enhanced oil recovery, or EOR, will continue to operate once the new ones start working in 2017, the statement said. "The oil and gas industry is the next major market for solar energy," says Rod MacGregor, president of GlassPoint. "Our efforts with PDO will pave the way for additional large-scale solar EOR developments at oilfields around the world."

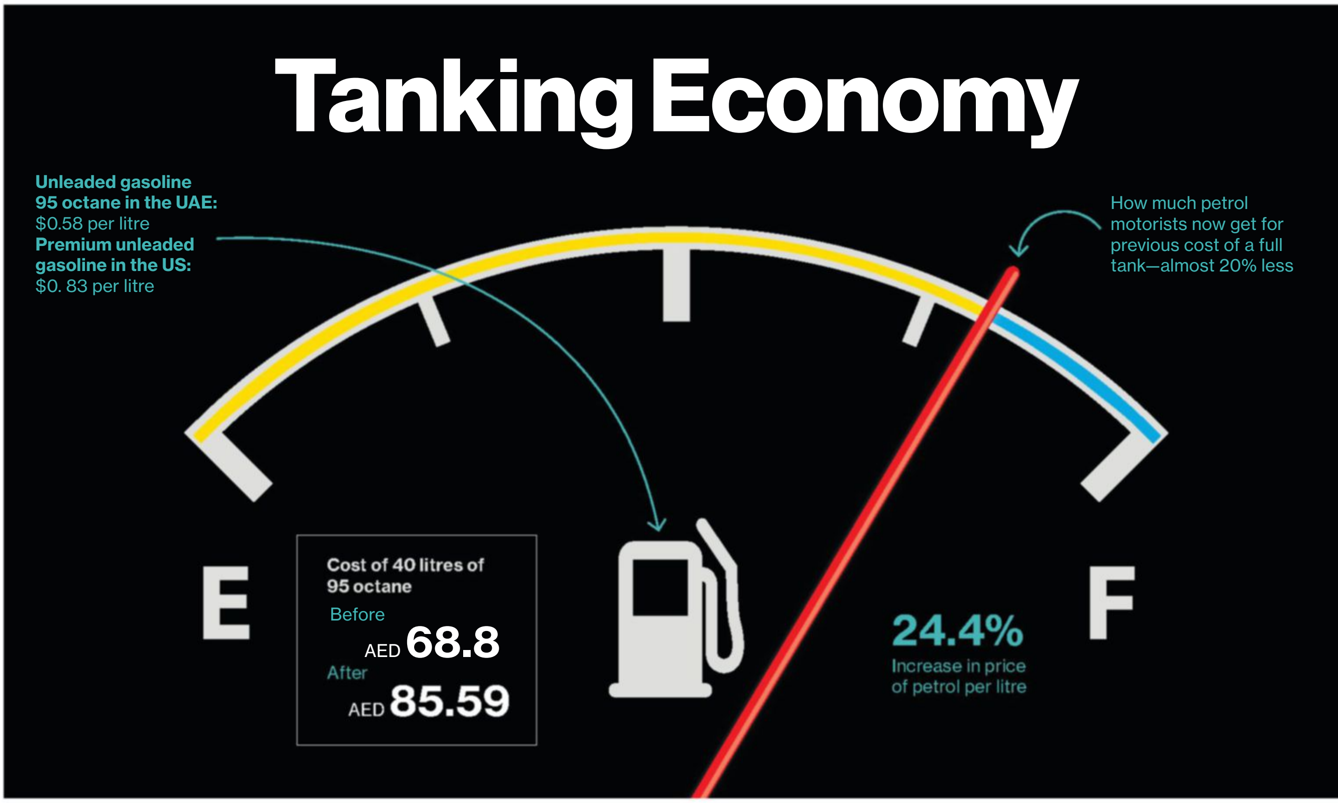
The project will break ground this year and comprise 36 glasshouse modules protecting the rows of mirrors, covering a total of three square kilometres, with the solar field covering two square kilometres. GlassPoint says that when it's finished, the project will deliver more energy than any other solar development.

Chase at New Energy Finance says that the energy supplied in the form of heat makes it smaller than some of the solar plants built by First Solar that generate electricity. The GlassPoint plant will save 5.6 trillion British thermal units of natural gas each year that would have been used to heat steam for injection at the field. That's enough to power a city of 209,000 people in Oman.

It will also reduce Oman's carbon dioxide emissions by 300,000 metric tonnes annually, the equivalent of taking 60,000 cars off the road. —*Alex Longley*

The bottom line The Amal oilfield solar project will save Oman enough energy to continuously power a city of 209,000 people.

AFP; ILLUSTRATION BY LA CHINA M



▶ UAE scraps fuel subsidy as lower oil prices bite into government revenues

▶ "That will really hit my budget"

As of 1 August, filling up a petrol tank in the UAE just got a bit more expensive. The country's Ministry of Energy announced on 22 July that it would deregulate petrol and diesel prices and link them to global oil markets from the start of the month, becoming the first country in the oil-rich Arabian Gulf to remove transport fuel subsidies.

Prices for both fuels will be reviewed daily and announced on the 28th day of each month, the ministry said. For August, the price of 95-octane unleaded petrol was set at 2.14 dirhams per litre (58 cents), up 24 per cent from 1.72 dirhams per litre, according to the Ministry of Energy's website. Prices for diesel, which will also be linked to global markets, will drop 29 per cent to 2.05 dirhams per litre, it said.

> "It does seem to be one of the more ambitious reforms within the Gulf countries to tackle the impact of lower oil prices." — *William Jackson, senior emerging markets economist, Capital Economics, London*

"It does seem to be one of the more ambitious reforms within the Gulf countries to tackle the impact of lower oil prices," says William Jackson, senior emerging markets economist at Capital Economics in London. "The UAE is strong to start off, so this may just reassure investors that its fiscal position is unlikely to deteriorate badly any time soon."

Petrol was subsidised in the UAE, the second-biggest Arab economy, OPEC's third-biggest producer and home to about 6 percent of global oil reserves. Gulf members of the Organization of Petroleum Exporting Countries provide some the largest per capita energy subsidies in the world, according to the International Monetary Fund. Subsidies have cost UAE state energy companies about $1 billion a year over the last decade, Energy Minister Suhail Al Mazrouei said in February.

Oil extended declines through July amid signs producers from the Middle East to the US will continue adding supplies to a global glut. Brent crude, which fell more than 50 per cent in the last 12 months, lost almost $9 from the 1 July through to 29 July and was at $53.11 a barrel in London.

"I pay 99 dirhams for a full tank and it lasts a week, now it will definitely be 130 dirhams," says Kavitha Ponnambalam, a banking saleswoman, as she filled up her Ford Escape SUV at an Emirates National Oil Co. gas station in Dubai. "That will really hit my budget." Cheaper diesel will reduce costs for industry, shipping and cargo, says Matar Alneyadi, head of the ministry's Price Review Committee, according to the official WAM news agency.

When the new prices were announced on 28 July, the US price for premium unleaded gasoline was $3.15 a gallon, or 83 cents a litre, according to AAA, the biggest US auto group. That compared

with 26 cents in Qatar and 21 cents in Kuwait, both of them OPEC members, and 15 cents in Saudi Arabia, the group's largest producer, according to data compiled by GlobalPetrolPrices.com. The worldwide average price for gasoline was $1.10 a litre, the data showed.

Removal of fuel subsidies is part of the government's plan to make the economy more competitive and diversify income, Al Mazrouei said in a July 22 statement.

The increase in petrol prices will have "minimal" impact on individual motorists, says Alneyadi of the Price Review Committee. "It will promote rationalised consumption and incentivise people to choose most fuel-efficient cars, while curbing the increase in the number of cars on the country's roads."

Almost 4,000 of the cars in Dubai are government-owned taxis. "When petrol prices go up, our business will go down," taxi driver Fayaz Ahmed says. Many people will use buses and the city's Metro commuter train instead, he says.

For Shaukat Mahmoud, a Pakistani living in Dubai for 13 years, costlier petrol will mean less purchasing power. "I'm worried," he says at the ENOC gas station. "I have family at home. I earn money to feed them and fulfill their needs. Now there will be less money for them. It will affect me." —*Claudia Carpenter, Bruce Stanley and Deena Kamel Yousef*

The bottom line Facing a fiscal budget deficit for the first time since 2009, the UAE is looking for ways to balance its books.

Radicalism

In a Saudi Prison, Playgrounds and ATMs

▶ **Saudis arrest returning jihadis, then play nice**

▶ **The room "is a gift for the inmates who behave well. It's like a hotel"**

Departing guests at the Family House in Riyadh are invited to fill out a questionnaire: Were the rooms clean? Was the food varied enough? Then they go back to jail. The facility is inside al-Ha'ir, one of Saudi Arabia's five maximum-security prisons, and it's part of the kingdom's programme to rehabilitate jihadis. Thousands of Saudis have defied a ban and are joining militants fighting in Syria and Iraq. Saudi authorities are seeking to ensure they don't bring the violence back home. Those who return and get caught may end up in the Family House and someday become free men. Of those who went through the rehab programme, 14.6 per cent return to terrorist activities, according to the Interior Ministry.

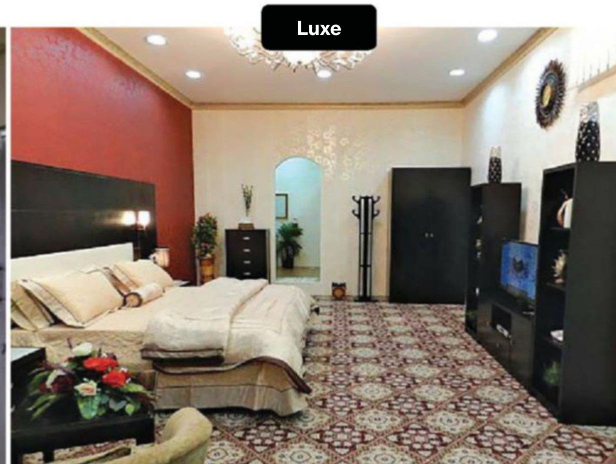
A room here "is a gift for the inmates who behave well," says Sarah Abdullah, a 30-year-old employee of the prison. "It's like a hotel," she says at the check-in desk, holding up an electronic room card. The two-storey building features walled-in outdoor playgrounds for inmates' children. One suite has a room with three children's beds and a polka-dotted wall; another has chandeliers and speakers playing ambient music. Inmates get to stay for as long as 72 hours and can return to the hotel in another two months. The staff is all-female, so visiting wives and daughters feel comfortable, Abdullah says.

Saudi Arabia is part of the US-led coalition fighting the self-proclaimed Islamic State. Its rulers know that calls to holy war resonate with many Saudis—especially holy war in Syria, where the jihadis' goal of ousting President Bashar al-Assad is shared by the Saudi government.

The Saudi rehabilitation effort is "probably the most serious and thoroughly resourced such programme anywhere," says Paul Pillar, a former CIA officer who is a senior fellow at Georgetown University's Center for Security Studies. Yet it reaches only a small number of militants and falls short of "dealing in a more wholesale manner with the roots of jihadi radicalism in the kingdom," he wrote. The authorities work with Sunni clerics to help deter young Saudis from going on jihad, train the police to identify and arrest returning jihadis, and try to disrupt the financial networks supporting them.

More than 2,600 Saudis have travelled to Syria since 2011 to fight for militant groups such as ISIS, and 668 have returned, according to the Ministry ▶

A corridor in al-Ha'ir, one of five maximum-security prisons in Saudi Arabia that hold jihadis and others considered enemies of the Saudi state



A bedroom at the Family House, a hotel-like amenity bestowed on jihadi inmates at al-Ha'ir as a reward for good behaviour. Prisoners can spend as long as 72 hours there with their families

FROM LEFT: ILLUSTRATION BY LA CHINA M; FAISAL AL NASSER/REUTERS; COURTESY AL-HAIR PRISON;

◀ of the Interior. Many end up in al-Ha'ir or other top-security prisons. So do Saudis who funded, recruited, and housed the fighters. The number of inmates at the maximum-security prisons now exceeds 4,200, according to official figures. That number includes jihadis and others, such as rebellious Saudi Shiites, who are deemed enemies of the state. All the inmates at al-Ha'ir get a monthly allowance of 2,000 riyals ($533), which they can withdraw from ATMs in the prison, and they have opportunities for education and access to psychologists. "The main purpose is to rehabilitate them," says Colonel Mohammed "Abu Salman," the head of al-Ha'ir. For security reasons the colonel gives his nickname only.

In a courtyard inside al-Ha'ir, young men, all jihadis, sit on benches talking. One says he's a Saudi American from Texas, giving no further details. Another says he fought six months with a group linked to ISIS in Aleppo. He says he headed home when he grew worried about his family and was arrested when he landed at the airport in Jeddah. In al-Ha'ir's medical ward, a 25-year-old man lies in bed, paralysed from the waist down. He says he was shot by a sniper in the province of Idlib in northern Syria, after two years fighting for the al-Qaeda-linked Nusra Front. He made it to Turkey, where Saudi diplomats helped get him home. He says he now regrets his journey to Syria, knowing he'll probably never walk again. —*Glen Carey*

The bottom line The Saudis are trying everything from prison to hotel privileges to turn jihadis into responsible citizens.

Energy

Industry Swelters in a Hot Egyptian Summer

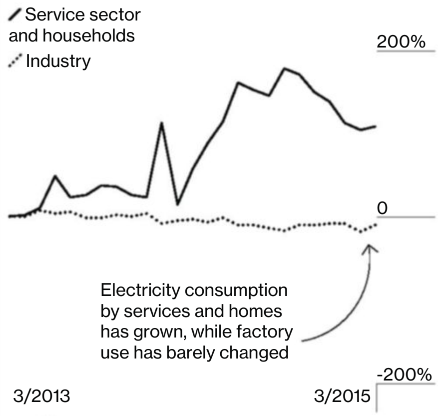
▶ **The regime supplies plenty of power to homes, not to factories**

▶ **"It's more important to generate electricity" for households**

As Egyptian industrialist Moataz al-Alfi enjoys the chilly blast from his air conditioning—the first time in three summers his Cairo home has had a reliable electricity supply—he knows the cool air is coming at the expense of his

Keeping the Lights On

Change in Egypt's electricity use since March 2013



fertiliser factories. The government has taken "a sovereign decision that it's more important to generate electricity" for households than provide energy to factories, says al-Alfi, chairman of **Egypt Kuwait Holding**.

Although the government has been practicing such triage since 2011, it's "much worse" this year, he says. Repeated power cuts, especially during the summer months, helped ignite popular anger against Islamist President and Muslim Brotherhood leader Mohamed Morsi, who was toppled by the army in July 2013 after widespread protests. The current government, led by former army chief Abdel-Fattah El-Sisi, isn't taking any chances. With fuel supplies low, the primary focus is keeping the lights on and the air conditioners humming at home.

That decision carries risks for the economy, which has stagnated during four years of turmoil. The government forecasts growth greater than 4 per cent for the first time since 2010. That's partly because of the stimulus from public works such as the construction of a second canal in Suez. This year's growth figure also benefits from an easy comparison with the poor economic performance in 2014.

Growth would be higher if more energy were available for industry. Nonoil exports tumbled 20 per cent, to $8 billion, in the first five months of 2015. "We give priority to electricity" for households, says Khaled Abdel Badie, chairman of state-run **Egyptian Natural Gas Holding**. The power generation industry, which has a mandate to avoid outages in Egypt's homes, gets "100 per cent of their needs, and then we give the rest to factories."

Many Egyptian industries use natural gas to operate their plants, and fertiliser makers use it as a raw material. At the end of March the government told Egypt's steel, petrochemical, and cement producers that pumping natural gas into factories would be "halted indefinitely," says Mohamed Hanafy, head of the Chamber of Metallurgical Industries at the Federation of Egyptian Industries. Most factories have been unable to operate more than 40 days this year, he says.

Steelmaker **El Ezz Aldekhela** said in late June that its plants were experiencing a "severe" natural gas shortage. Shares in the company have tumbled 26 per cent this year, more than three times the drop in the benchmark ▶

A cruise boat on the Nile in Cairo

XINYU CUI

◀ EGX 30 Index. Al-Alfi's Egypt Kuwait Holding has dropped 16 per cent.

Egyptians began to feel an energy crunch after the 2011 uprising against Hosni Mubarak. Once-robust investment in natural gas exploration in Egypt's fields dwindled, and demand quickly outpaced supply. Seeking to bridge the gap, the government began importing liquefied natural gas in April and leased the equipment that turns LNG back into gas. That gas then gets pumped into the pipelines that serve power plants.

Egypt's factory owners hoped that the LNG would be shared between households and industry, says Mohamed Abu Basha, a Cairo-based economist at EFG-Hermes Holding. But "the extra gas only allows improvement in electricity to households, not more." Abu Basha says the gas supply to factories should improve when additional equipment for converting LNG starts operating in October.

The industrial slowdown means Egyptian companies are struggling to export, adding to a foreign currency squeeze that's left the country dependent on handouts from the oil-rich Gulf regimes. To make fertiliser, natural gas goes to plants that produce for the local market, not to exporters, says Mohamed Salem, head of research at investment bank Prime Securities in Cairo. Exports of petrochemicals and building materials fell 28 per cent in the first five months of 2015. At the mercy of political priorities, Egypt's industries have little to do but wait for the summer to end. —*Ahmed Feteha and Tamim Elyan*

The bottom line Because Egypt's factories are getting less power than they need, they're exporting far less than they could.

Energy

Another Crack in Iraq as Kurds Cut Oil Ties

▶ **Kurdish government says its oil exports are independent of Baghdad**

▶ **"All oil sales that happen outside SOMO are illegal"**

Kurdish authorities say their oil exports are bypassing Baghdad

Iraq's self-ruled Kurds are bypassing the government in Baghdad and independently selling all the crude oil exported from their region for the first time as they take greater control of their own affairs. The Kurds are shipping as much as 600,000 barrels of oil a day from their fields and haven't sold any oil through the national marketing agency since June, Safeen Dizayee, a spokesman for the Kurdistan Regional Government, or KRG, said on 20 July.

In a further step toward financial independence from the central government, the Kurdish parliament has approved a plan to sell as much as $5 billion in bonds to pay for infrastructure projects, according to Dizayee. It may issue $2 billion in an initial sale, he said. "Since 1 July, our exports have become independent," Dizayee said. "This doesn't mean that there is no place for talks or understanding. Any new deal should be done on a win-win basis."

45b

Kurdish estimate of Kurdistan's oil reserves in barrels

Iraq's minority Kurds, who historically have resisted control by Arab-dominated governments in Baghdad, are independently developing oil reserves they say may total 45 billion barrels—equivalent to almost a third of Iraq's deposits, according to BP data. The Kurds have long operated a separate military force, which last year occupied the long-disputed, oil-rich territory around Kirkuk as the Iraqi army fled from Islamist militants. Shortly afterwards, the Kurds started to sell some crude on their own, a process completed by its announcement of export autonomy.

The KRG's decision to sell all its oil production may rekindle political conflict with Baghdad and threaten a surge in Iraq's o[illegible] increa[illegible] this year in oil ex[illegible]ts f[illegible]m OPEC's s[illegible]cond big-gest produc[illegible]r ma[illegible]l sh[illegible]rt o[illegible] th monthly record if the federal government and Kurds revive a dispute over crude revenue. The KRG's decision to export unilaterally suggests a December agreement between the two sides to jointly market crude from Kurdish fields is unravelling. The accord "seems close to collapse, if not there already," Robin Mills, a Dubai-based analyst at Manaar Energy Consulting, says. "I still find it hard to see the KRG de facto annexing Kirkuk and its oil, or Baghdad tolerating that."

Iraq is exporting the most crude in at least 25 years, even after Islamist rebels seized much of the country's northwest. It produced 4.39 million barrels a day in June, second only to Saudi Arabia in the Organization of Petroleum Exporting Countries, data compiled by Bloomberg show. Exports reached a record of 2.98 million barrels a day in March and have risen each month since, adding to a worldwide glut.

Kurdish officials have said they haven't received funds owed them under a revenue-sharing agreement, while Iraqi officials said the KRG hasn't supplied Baghdad with enough crude for sale. "Whether the deal can be maintained seems doubtful," Edward Bell, a commodities analyst at Dubai-based bank Emirates NBD, says. "It does raise questions for buyers of Kurdish oil since it will leave doubt about the legitimacy of what they're buying."

When the KRG sought to export oil on its own last year, the central government waged a legal battle to stop the cargoes from unloading, including a tanker that reached the Texas coast. "All oil sales that happen outside SOMO [Iraq's state marketing body] are illegal," Laith Al-Shaher, director general of the legal department at the oil ministry in Baghdad, said on 19 July.

Tensions between the two governments threaten the reliability of exports from northern Iraq, according to Harry Tchilinguirian, head of commodity market strategy at BNP Paribas in London. Questions over who has title to the oil, the KRG or the central government, [illegible]ause s[illegible] [illegible]luctance a[illegible]bout [illegible]heth[illegible] buy[illegible] cho[illegible]se to [illegible] that cruc[illegible] e sa[illegible]s. "[illegible] will have [illegible]nd

600,000

Maximum number of barrels of oil per day exported by Kurds

a resolution. It's in their mutual interest." —*Khalid Al-Ansary, Bruce Stanley and Anthony DiPaola*

The bottom line The Kurdistan government's independent sale of oil from the region is another step towards complete autonomy.

Yemen

Al-Qaeda Seizes Chance to Govern in Yemen

- ▶ **The jihadist group controls southern port city of Mukalla**
- ▶ **"They have killed life here"**

In the port city of Mukalla in southern Yemen, al-Qaeda is in charge. Its militants roam the streets, ordering women to cover their faces and banning shops from displaying lingerie. The jihadist group, whose local affiliate al-Qaeda in the Arabian Peninsula already used Yemen as a base for attacks, has seized the chance to emulate its ISIS spinoff by holding territory and governing it. The advance has been made possible by a civil war that shifted the priorities of Yemen's powerbrokers.

While the US continues to target jihadists in Yemen with drone strikes, its allies—the internationally recognised government, and its sponsor Saudi Arabia—are more preoccupied with regaining control of the country from Shiite Houthi rebels. Al-Qaeda "is much stronger on the ground today," says Katherine Zimmerman, a research fellow at the American Enterprise Institute in Washington. "The coalition forces, particularly Saudi Arabia, are willing to risk strengthening al-Qaeda in the process of defeating the Houthis."

A Saudi-led coalition has been bombing Yemen, which lies adjacent to some of the world's busiest oil shipping routes, since March in a bid to reinstate President Abdurabuh Mansur Hadi, driven into exile by the Houthis. It claimed its first major breakthrough in mid-July, as government troops with Saudi air support regained control of the southern city of Aden. Two aid ships arrived there on 21 July, and officials said they marked the start of a nationwide relief effort.

Elsewhere in the south, the fight against the Houthis has brought al-Qaeda to the fore. The group seized Mukalla in April, looting the town's central bank branch and freeing hundreds of inmates from its prison. It has also burned down Sufi shrines and markets that sold qat, a mild narcotic leaf popular in Yemen, according to Mohammed Ali, a military officer and local resident. "All state institutions and banks are closed and employees are stuck—no police stations, no prosecutions, business activities have stopped," Ali says.

The militants moved into Mukalla with support from local tribesmen, dubbing themselves the "sons of Hadramaut," the province of which Mukalla is the capital, and promising to defend it against the Houthis. By joining that fight, the jihadist group "has been able to mobilise a greater degree of sympathy," says Patricia Letayf, an analyst at research company Control Risks in Dubai. Instead of being stigmatised as a terrorist group, it has become accepted by some Yemenis, especially in the south, as a useful ally against the northern-based Houthis. The Houthis pledged to step up the fight against al-Qaeda when they took control of Sana'a in September. They have also accused Hadi's government of secretly aiding the jihadists.

Mukalla, in southern Yemen, is under al-Qaeda control

The US has identified Yemen-based al-Qaeda in the Arabian Peninsula as the group most likely to hit Western targets. It was behind the Charlie Hebdo shootings in Paris and the attempted bombing of a Detroit-bound plane in 2009, and has also struck in neighbouring Saudi Arabia.

For much of the past decade, Yemen's government received US training, carried out raids against al-Qaeda and provided the US with a base for armed drone missions. While the drone strikes continue—AQAP leader Nasir al-Wahishi was killed in June—the US now lacks a stable local ally, though it also has a base in Djibouti, just across the Bab-el-Mandeb strait. In Yemen, "our partner is in shambles," says Zimmerman of the American Enterprise Institute. Al-Qaeda's gains are a concern because "US airstrikes are not going to be able to dislodge a governing organisation."

The self-proclaimed Islamic State has gained support in Yemen too, claiming responsibility for several attacks including mosque bombings in March that killed about 140 people. Yet while the newcomer has eclipsed al-Qaeda elsewhere, in Yemen the older group predominates. The longer Yemen remains at war, "the more these groups will prosper and take more territory and put their stamp on it," says Matthew Henman, manager of IHS Jane's Terrorism and Insurgency Centre in London.

In Mukalla, al-Qaeda didn't initially seek to impose on the civilian population, says Naser Baqazquz, a political activist. Gradually, it began to do so—outlawing cigarette sales, putting jihadist videos on television, taking charge of imports and exports, and setting up a security force that patrols the streets to apply Islamic law. Ali, the local army officer, says: "They have killed life here." —*Nafeesa Syeed and Mohammed Hatem*

The bottom line Al-Qaeda is strengthening its position in Yemen as a Saudi-led coalition focuses its efforts on defeating Houthi rebels.

Yo Tim!

What's up with this deal you're on??? I need some stock tipz! ;)

LOL. whoever's reading this we're JK

U always crack me up Janet!

▶ Office chat service Slack is adding record-keeping features to push its way into finance

▶ In chat windows, workers "are a lot less formal and more colloquial"

In the next major financial scandal, when e-mail and other digital communications among co-workers again turn into courtroom evidence, they will likely include **Slack** chats. That means federal prosecutors will almost certainly review scattered arguments about the relative merits of bagels and burritos and links to the occasional clickbait quiz. ("Do you belong in NY or SF?") Try to imagine stern attorneys puzzling over transcripts that descend into a stream of sarcastic animations, or a judge ruling on the legal meaning of a chat room meme.

Slack, which in its less than two years has become a leading office chat software, is trying to prepare for this kind of scrutiny. The service offers casual chat rooms organised by topic. It's compatible with cloud services such as Dropbox and Google Drive, and comes with a built-in GIF generator. Accounts with up to 10,000 messages are free; an unlimited account costs about $7 a month per user, or $12.50 for a version with 24/7 customer service. Slack has 300,000 paid subscribers among its 1.1 million daily users, yielding $25 million in annual recurring revenue. In April the company raised $160 million at a $2.8 billion valuation, bringing its total fundraising to $340 million.

It's sinking some of that money into features that will ensure all its chats are recorded for posterity in a clean, searchable format, and that employers can monitor chats in real time. Those features are needed to attract financial-services companies that haven't been able to use Slack for fear of violating a Reagan-era rule on maintaining records of business correspondence. "There were a number of com-

ILLUSTRATION BY 731

panies in our pipeline that said, 'We won't be able to use you unless you meet this compliance obligation,'" says Anne Toth, an executive who joined Slack in October to head policy and compliance strategy.

The $12.50-a-month version already lets users save all their chats in one file, but that format isn't easily searchable—and can't be easily accessed by bosses. To make the data more usable, Slack is working with digital-archival companies to incorporate more active surveillance features, such as keyword alerts, that managers and compliance staff can monitor. This deluxe business version will cost $40 to $48 a month per user. (Bloomberg LP, the parent of *Bloomberg Businessweek*, also provides digital communications and archiving tools to financial institutions.)

> **"We probably have too much fun on Slack. It's definitely the main way to communicate here."**
> ***—Jack Randall, Robinhood***

Among the companies using Slack for compliance is **Robinhood**, a Palo Alto startup that makes a stock-trading app. Because Robinhood is a registered broker-dealer, all digital communications among its two dozen employees, including their office humour, must be recorded, archived, and available for parsing by the Financial Industry Regulatory Authority or the US Securities and Exchange Commission. Chief Operating Officer Nathan Rodland says he'll step into chats occasionally to redirect a conversation or tell people to get back to work, and acknowledges that he worries about just how casual Slack can get. "We probably have too much fun on Slack," says Robinhood spokesman Jack Randall. "It's definitely the main way to communicate here."

Fun is something of a risk, says Lindsay Simon, founder of consulting firm Simon Compliance. "You are trained and ingrained in the financial-services industry: 'Don't write anything in an e-mail that you don't want to be on the cover of the *Wall Street Journal*,'" she says, but employees in chat rooms "are a lot less formal and more colloquial."

Chat rooms have exposed some especially embarrassing behaviours at financial-services companies, perhaps most notably during the Libor scandal, in which traders rigged rates while joking over chat about being dirty. E-mail, of course, has posed its own problems, from the Enron scandal to the aftermath of the 2008 financial meltdown. Goldman Sachs officially banned the use of profane language in office communications after a 2010 Senate hearing made famous an executive's expletive-strewn e-mailed boast that he was hoodwinking clients with what he knew to be a poor deal.

Federal regulations require financial companies to scan digital communications for red flags, typically using the kinds of filters Slack is developing for its pricier edition. These features may help Slack catch up to rival chat programme Symphony, which has made headway in heavily regulated industries such as finance and health care. Filter-equipped Symphony, which launched in beta in April, has already drawn about 50,000 active users, says **Symphony Communication Services** Chief Executive Officer David Gurle. None, however, pay.

People eventually grow numb to warnings that they're being watched, says Simon, the consultant. Many office workers sign away their rights to e-mail privacy at work and continue to have inappropriate discussions over company servers, so even with all of Slack's notifications that conversations are being recorded, the company's chat transcripts could easily end up in court. Younger workers reared on social media will come to think of joking around with coworkers through GIFs as part of life in a hip workplace, along with flex time and happy hours. For Slack to keep selling to employers, it'll have to stay fun—by the standards of an office chat service—without loosening up workers so much that they get in trouble. "We want to use these cool, new, hip, trendy startups, their services and products," says Randall, Robinhood's spokesman. But too often, "they can't support our regulatory requirements." *—Rebecca Greenfield*

The bottom line Slack is using some of its latest $160 million in venture capital to develop compliance tools that appeal to finance shops.

Autos

Ford's New Dashboard Software, by BlackBerry

▶ **The company ditches Microsoft and slims down its interface**

▶ **"Sophistication is not a substitute for solid design principles"**

When new Fords start arriving in dealerships this summer, many models will feature the carmaker's latest in-dash interface, called Sync 3. It's not named after its predecessor MyFord Touch, because that software is something the carmaker would rather you forget.

Ford Motor has a mixed record in cockpit technology. It's been one of the most innovative car companies, introducing more features across more models than any competitor, but the downside has been overreach. "Ford's been first and they've been bold," says Jake Fisher, director of automotive testing at *Consumer Reports*, but that means the company's dashboard systems became too complicated. "It's been risky, and at times it's hurt them."

MyFord Touch was one of those times. Introduced in 2010, its touchscreen interface was supposed to leapfrog the competition, but most drivers found it confusing. Early on, the system crashed a lot. The company fell 18 places to No. 23 in J.D. Power and Associates' 2011 Initial Quality Study, and MyFord Touch was highlighted as the reason why.

MyFord Touch was powered by a **Microsoft** operating system, but Ford is now using an OS from **BlackBerry** subsidiary QNX that already runs in-dash systems in Audis, BMWs, and Mercedes-Benzes, among others. In 2005, the system's early days, a partnership with Microsoft was "completely obvious," says Gary Jablonski, Ford's manager of infotainment systems. "We wanted a big software company, lots of horsepower, connected to the consumer industry, connected to the phone industry." The BlackBerry software, he says, will be more resistant to crashes of the PC variety. It turns out the ▶

◀ kinds of bugs people will tolerate from their phones drive them crazy on the road.

Sync 3 aims to wipe the touchscreen clean with a far easier interface. “We really focused on trying to make a system that was the simplest to use for customers,” Jablonski says. That goal may sound obvious, but John Schneider, the project’s chief engineer, acknowledges that to justify the added cost, “We tried to pack a lot of features into MyFord Touch.”

Where the previous system was comprehensive to the point of being enervating, Sync 3 is “Fisher-Price-easy to use,” as Jablonski puts it. The screen may not be gorgeous, but it has large buttons and a clear structure so drivers can easily switch from selecting music to entering a destination. Ford has also put traditional volume knobs and temperature buttons back on the dash. “Sophistication is not a substitute for solid design principles,” says Don Butler, Ford’s executive director for connected vehicles and services.

Sync 3 is entering a considerably more crowded marketplace than MyFord Touch did. **Apple**’s CarPlay and **Google**’s Android Auto seek to put the smartphone at the centre of the in-car interface, making dashboard screens look pretty much like iOS or Android. Ford says it’ll eventually support both CarPlay and Android Auto, allowing drivers to ditch Sync 3 and send Apple or Google their valuable location data.

To help keep Sync 3 updated, Ford is putting together AppLink, which other developers can incorporate into their software to make it Sync-compatible. The company is trying to make sure any app on any smartphone can run on Sync 3, too, taking pressure off Ford to keep pace with trendy tech. “AppLink lets customers get features they didn’t have when they bought the vehicle,” says Julius Marchwiki, who heads the software’s development. **Toyota Motor** said in June that it plans to use Ford’s open source version of AppLink in its cars.

That partnership sets up a bit of a showdown between major carmakers and Silicon Valley. Ford’s argument is that it has more access to vehicle data than Apple or Google and a deeper understanding of how a driver interacts with her car. If that sounds familiar, it’s because Apple has for years explained its value as a function of unified hardware and software design. Ford’s engineers are betting that this philosophy will be a good defence against the very company that made it popular. (And against Google, too.)

“The user experience and interaction with the interfaces and the controls within the vehicle, it’s not something that we at Ford feel like we can abdicate,” Butler says. Others aren’t so sure. Fisher, the *Consumer Reports* analyst, says it’s a matter of time before Apple and Google control your dashboard, because they’re much quicker to adapt. “If carmakers started this five years ago,” he says, “you’d have hardkeyed buttons for Myspace and Friendster.” *—Sam Grobart*

The bottom line Ford has stripped down its cumbersome dashboard interface with an eye on competing systems from Apple and Google.

The Sync 3

The OS, from BlackBerry-owned QNX, also runs in Audis, BMWs, and Mercedes-Benzes

Startups

A Tech Ecosystem Built on Rubble

▶ A Google-backed accelerator is helping entrepreneurs in Gaza

▶ “We started working harder” to catch up after last year’s fighting

Less than 80 kilometres from the thriving tech hub of Tel Aviv, startup founders are having a tougher time. In the Gaza Strip, decades of conflict and grinding poverty make reliable electricity and office space tough to come by. Nonetheless, where there are computers and smartphones, there are young people with ideas for apps, says Iliana Montauk, and those she’s met in Gaza over the past two years compare favourably with people at Harvard and in Silicon Valley.

Montauk is the head of **Gaza Sky Geeks**, a startup accelerator in Gaza City. Backed by **Google** and operated by the US charity Mercy Corps, GSG seeks to develop business ideas and connect entrepreneurs with investors. Montauk, a former Google staffer and a native of Berkeley, California, is convinced Gaza’s young coders can create tech success stories in the territory run by Hamas. Four GSG companies have secured outside investment from Arab-focused venture funds, and she aims to help another four do so this year.

While Israel’s eight-year blockade of Gaza limits imports of concrete, chemicals, and other materials that could potentially be used for fighting, computers and smartphones are widely available. In June, during a five-day “boot camp” at GSG’s offices by the harbour, about 40 aspiring entrepreneurs showed off their ideas. Men in jeans and T-shirts and women in headscarves and long skirts perched on multicoloured couches with laptops and smartphones, chatting in English with volunteer advisers from the US, Dubai, and Britain.

Ted McCarthy, a visiting adviser from tech consultant **ThoughtWorks** in San Francisco, was “actually amazed,” he says. “A good number of the startup ideas seemed like legitimate beginnings to serious businesses.” Mohammed Ezzdeen, 27, founded **Baskalet**, a mobile-gaming company that just released its first title, an Arabic-language driving

The offices of Gaza Sky Geeks, a Google-backed startup accelerator in Gaza City

game. After last summer's Israel-Hamas war, he says, "we started working harder" to catch up.

GSG was founded in 2011 primarily to educate young people about technology. Under Montauk, who graduated from Harvard in 2006, its focus has shifted to producing viable companies. She moved on to Google and consultant Monitor Group, then a Fulbright fellowship in Jordan, before Mercy Corps hired her to run GSG in 2013. Although Google provided $900,000 for initial costs, Mercy Corps and GSG have turned to crowdfunding to cover rent, salaries, and Internet access. An online campaign that ended in January raised about $250,000 from more than 800 people.

Creating a successful tech ecosystem in Gaza isn't out of the question, particularly with products aimed at the Arab world's rising middle class, says Shikhar Ghosh, who teaches entrepreneurship at Harvard Business School. On a visit last year to the West Bank, "the companies I saw that were really intriguing were those looking into the Middle East and North Africa instead of looking westward," he says. And costs and valuations are far lower than in established tech hubs, so "it's a pretty easy bet to make."

Concrete and chemicals are scarce in Gaza, but laptops are common

A top priority for GSG startups is coming up with a plan to keep operations running elsewhere if war flares up again. Complicating such efforts, the Gaza airport has been shuttered for more than a decade, and locals need permission from Israel or Egypt to leave. Montauk says she's betting on the resilience and enthusiasm of the young people she's met at GSG. She was out of the country during last summer's fighting, which killed more than 2,000 Gazans, and was worried about what she'd find when she returned. "There were 60 people there waiting," she says. "All they wanted to talk about was their startups." —*Matthew Campbell and Saud Abu Ramadan*

The bottom line A Google-funded accelerator in Gaza is connecting Palestinian tech entrepreneurs with outside financing.

FROM LEFT: RYAN LOWRY FOR BLOOMBERG BUSINESSWEEK; SHAWN BALDWIN/BLOOMBERG (2)

Hardware

China Has Big Plans for Homegrown Chips

- The state's $161 billion investment scares foreign industry leaders
- "You're going to have to do joint ventures and licenses"

China buys more than half the semiconductors sold each year, and its share is growing. Yet the nation doesn't have one domestic manufacturer among the 10 biggest chipmakers, a list stacked with US companies. Homegrown chips account for less than one-tenth of local demand, and in 2013 China spent more money importing chips than it did importing oil, according to researcher Sanford C. Bernstein.

As President Xi Jinping's government trades allegations of cyber espionage with US officials, China is stepping up its support of domestic chip production to lessen its dependence on foreign technology. The government is telling local companies and Chinese news media that it plans to invest as much as 1 trillion yuan ($161 billion) over 10 years to develop chips, about as much as **Intel** ▶

◀ spends per decade on facilities and research and development.

With so much money going to local producers, foreign chipmakers can either help China's industry improve or try to get along without the market, says Rick Clemmer, chief executive officer of Dutch chipmaker **NXP**. "Over the next few years, it's not going to be the same as it is today, where we just ship semiconductors into China," says Clemmer, whose company got 49 per cent of its sales from the country last year. "You're going to have to do joint ventures and licenses."

South Korea and Taiwan used a similar strategy in the 1980s to accelerate the rise of **Samsung Electronics** and **Taiwan Semiconductor Manufacturing**. Neither of those companies, however, gets more than 12 per cent of sales from its home market. No company in the business can afford to walk away from China, says Mark Li, an analyst at Sanford C. Bernstein. "Don't underestimate the impact of scale," he says.

$5b

Cost to build and equip a state-of-the-art chipmaking plant

Even the most advanced companies in the $300 billion chip business are spending more cash and sharing more technology so they can keep hawking their wares in China. **Qualcomm**, the world's biggest maker of mobile processors and modems, paid a $975 million fine in February to settle a Chinese antitrust investigation; it also reduced the fees it charges Chinese phone makers to use its chips. Qualcomm has announced a $150 million China investment fund, promised to set up a joint venture to design server chips in the mountainous southwestern province of Guizhou, and teamed with Chinese companies. It has agreed to outsource some production to Shanghai-based **Semiconductor Manufacturing International**.

Not to be outdone, Intel, which gets one-fifth of its $56 billion annual revenue from China, has committed more than $3 billion since September to upgrade its Chinese plants and to invest in state-run mobile chipmakers. It's managed to avoid roadblocks from Chinese regulators, as has NXP, which through a joint venture with **Datang Telecom Technology** has become China's biggest supplier of chips used in cars and trucks. Qualcomm and Intel declined to comment for this story.

The foreign chipmakers' advantage is experience in building and operating the factories that drive the business. A state-of-the-art plant costs more than $5 billion to build and equip and can become obsolete in as little as five years. Until Chinese companies can match the technology and designs of foreign partners, they'll need help, says Rajiv Ramaswami, head of networking chips at **Broadcom**. "They use us not because they love us, but because they need us," he says. "The minute that stops, we're out."

For now, major chipmakers can mostly count on China needing them as much as they need China, says Betsy Van Hees, an analyst at Wedbush Securities. But given the nation's deep pockets, "It's a very real threat to the semiconductor industry," she says. "Just think where they'll be in 10 years." —*Ian King*

The bottom line Foreign chipmakers are working to avoid getting shut out of China as it boosts its homegrown industry.

Software

Dropbox Struggles to Think in Dollars

▶ Its valuation soars, but competitors are catching up

▶ Revenue is "the oxygen that allows this company to continue breathing"

Dropbox made itself a household name by giving away cloud storage. The eight-year-old company, valued at $10 billion, had 300 million registered users a year ago; now it's got 400 million. Its two-year-old effort to make money from business users has been less impressive. While Dropbox led the $904 million global market for business file-sharing last year with about a 24 per cent share, No. 2 **Box** and No. 3 **Microsoft** each took about 21 per cent and doubled their slice of the pie, growing almost twice as fast, according to researcher IDC.

Dropbox's paid business version lets users distinguish between personal and business documents and gives IT staff more control over the latter. But the company has been slow to add the level of security now common in office cloud software; Chief Executive Officer Drew Houston acknowledges that Dropbox has yet to figure out some basic elements of its sales strategy, including whether to focus on direct sales or partnerships. "We're trying a lot of different things," he says.

Dennis Woodside, Dropbox's first chief operating officer, is leading those efforts. A year ago, Houston hired Woodside, then the CEO of Motorola Mobility, to craft a more detailed business plan that could turn a company with more than $400 million in annualised revenue into one that makes billions. Both men say much of that process has required an adjustment period among Dropbox staffers, including the coders who thought in terms of products and rarely spared a thought for selling them. "One of the things Dennis did early on was establish a belief system around revenue as the oxygen that allows this company to continue breathing, to continue to see another day," says Marc Leibowitz, a Woodside lieutenant who heads partnerships.

Woodside, who jumped to Dropbox while **Google** was selling Motorola to **Lenovo**, made his name running Google's foreign sales divisions. In the past year one of his biggest achievements has been to accelerate a hiring process that Houston says had been "ponderous." He filled empty senior positions (head of marketing, head of HR), opened five offices abroad to serve the 70 per cent of Dropbox customers who aren't in the US, and doubled the company's head count to 1,200, mostly by beefing up the sales team. "My view is: Speed is what is going to win," Woodside says, and having a bunch of empty chairs in the conference room means you're losing. "That creates some tension now and then" with Houston, he adds.

Under Woodside, Dropbox has struck partnerships with telecommunications companies **Vodafone** and **SoftBank** to help distribute its software. Meanwhile, Microsoft has hedged its bets on its own service by making Dropbox compat-

ible with online and mobile versions of Office. Google Executive Chairman Eric Schmidt, who's previously worked closely with Woodside, says he's interested in making Dropbox compatible with Google's business software, too, even though his company is, like Microsoft, one of Dropbox's primary rivals. "The ideal scenario is that Dropbox is an integrated partner with Google in a whole bunch of areas," Schmidt says. "We're all growing a large cloud-computing platform together."

More than 100,000 companies have signed contracts to use Dropbox for Business, which costs $150 a year per employee. That's up from 50,000 a year ago, the company says, but it wouldn't provide more details of its sales during Woodside's tenure. Woodside says sales have been too volatile, and he's trying to add a degree of stability.

Stability may be in short supply in the company's executive ranks. Ilya Fushman, the head of product for Dropbox for Business, became a venture capitalist in June. The company's head of design, Gentry Underwood, has stepped down, too, though he remains with Dropbox in an unspecified capacity. Woodside hasn't been able to hire an overall head of product management, the person who'd be trying to match the security and other features in place at Microsoft and Box.

Box, which went public in January, is something of a cautionary tale for Houston and Woodside. Its total 2014 revenue was about 60 per cent of Dropbox's, according to IDC, but its market value is now only one-fifth of Dropbox's private valuation, suggesting that the office cloud market may not grow fast enough to bridge the gap between investor fantasy and reality.

Like Box, "Dropbox has been around a long time now," and it's past due to figure out a business model, says Ben Thompson, an analyst at consultant Stratechery. Still, Houston remains cautiously optimistic—after all, Dropbox's revenue grew more than 50 per cent last year. "We're kind of in the phase where, like, we've put our pick in the ground, and all this oil is coming up, and we've got to get it together here," he says.
—*Eric Newcomer and Dina Bass*

The bottom line Fast-growing Dropbox has seen its rivals gain ground as it struggles to come up with a clear business strategy.

Innovation

iPhone Microscope

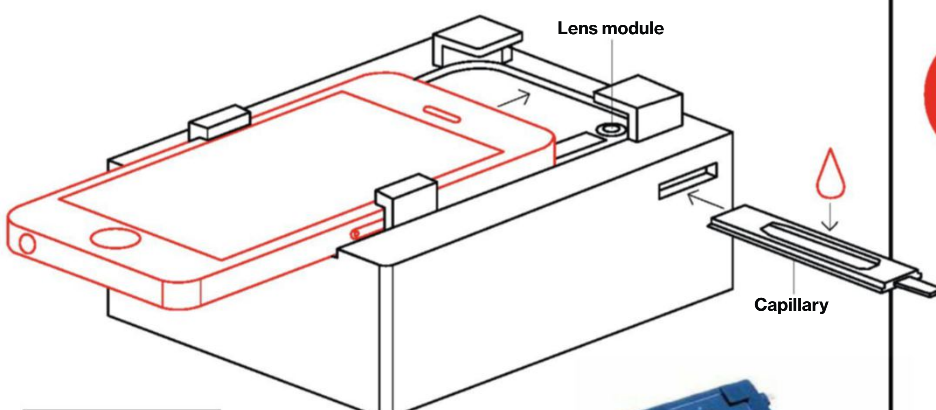
Form and function
CellScope Loa is a video microscope that attaches to an iPhone. A custom app screens a patient's blood to check whether he can safely receive treatment for river blindness, an insect-borne infection that affects millions.

Innovators Thomas Nutman and Dan Fletcher
Ages 63 and 42
Head of clinical parasitology at the National Institutes of Health; bioengineering professor at the University of California at Berkeley

1.
Setup The iPhone clips to a plastic base housing the microscope, which a health worker loads with a small glass capillary of blood from a patient's finger prick.

Background A river blindness treatment campaign for sub-Saharan Africa has been thwarted for about two decades because the drug used was found to harm patients also infected with another parasite, called Loa Loa.

Origin Nutman had been searching for ways to rapidly screen for Loa Loa when he heard that Fletcher's Berkeley lab was developing microscope attachments for phone cameras.



Tests A study of 33 patients in Cameroon yielded zero false negatives and two false positives.

Funding The $400,000 study was supported by the National Institute of Allergy and Infectious Diseases, the Bill & Melinda Gates Foundation, and Berkeley.

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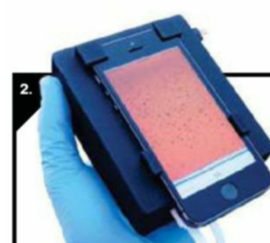

Diagnosis The phone's camera records short video clips of the blood sample. Within minutes, CellScope's app reports how many Loa Loa parasites it spotted and whether the patient can take river blindness meds.

Next Steps
Fletcher and Nutman's team is taking 15 devices to Cameroon this summer and plans to spread 40 more throughout central Africa. Adrian Hopkins, director of the Mectizan Donation Program, who is working to eradicate river blindness, says a quick diagnostic tool would be a powerful asset. "You can go into a village, and you can exclude patients from treatment who are at a small risk," he says. "You can treat the rest." —*John Tozzi*

CLOCKWISE FROM TOP: VICTOR J. BLUE/BLOOMBERG; ILLUSTRATION BY 731; COURTESY CELLSCOPE; ILLUSTRATION BY 731

As Others' Eyes Roam, a Qatari Sheikh Sticks With Europe

▶ Bucking the trend, former prime minister Sheikh Hamad Al Thani adds to his European assets

▶ “There’s less of a focus on high-profile assets generally”

While most sovereign wealth funds in the Gulf are moving away from European trophy assets, Sheikh Hamad Bin Jassim Bin Jabr Al Thani is sticking to a strategy honed as head of the $250 billion Qatar Investment Authority. The former Qatari prime minister is taking a 10 per cent stake in Spain's **El Corte Ingles**, western Europe's largest department store owner, adding to an agreement last year to inject 1.75 billion euros ($1.94 billion) into **Deutsche Bank**. He's also taken over Jersey energy company Heritage Oil as he builds his portfolio as an individual investor.

While Sheikh Hamad continues to pursue prestigious European investments, the fund he once headed is heading away from its strategy of buying stakes in European companies such as **Barclays** and **Total**. The QIA–and other Gulf funds–are looking increasingly to Asia to capitalise on the region's growing population and economies, with Qatar saying in December it plans a $10 billion venture with China's **Citic Group**.

"There's less of a focus on high-profile trophy assets generally and more of a focus on investing in drivers of international economic growth," says Nick Tolchard, head of Invesco Middle East. "These changes are coming as the funds move on from the financial crisis and have focused on risk management and strategic asset allocation in a low-yield environment."

The QIA said on 10 July it will partner with Singapore's **CapitaLand** to set up a $600 million serviced residence fund. It also agreed to pay HK$9.3 billion ($1.2 billion) to buy a stake in Hong Kong billionaire Li Ka-shing's electric utility in June. Abu Dhabi Investment Authority joined a group that's planning a bid for Australian electricity assets, people with knowledge of the matter said in April.

These deals contrast with many done during the global financial crisis when Arabian Gulf funds were valuable sources of capital to distressed sellers in Europe and the US. The QIA bought well-known assets such as the Shard skyscraper in London and Harrods department store, and stakes in Volkswagen, Credit Suisse Group and Barclays. Abu Dhabi Investment Authority bought a stake in Citigroup.

Sheikh Hamad was ousted as prime minister and head of Qatar's sovereign wealth fund in 2013. He invested in Deutsche Bank through his Paramount Holdings Services last May, while his Al Mirqab Capital vehicle's offer for **Heritage Oil** valued that company at 924 million pounds ($1.4 billion).

With his latest deal, Sheikh Hamad says he wants to stay with El Corte Ingles and support its development strategy. With stores in some of the most-desired locations in Spain, El Corte Ingles is renowned for a broad offering encompassing jewellery and stockings to airplane tickets and vacuum cleaners. Scores of salespeople dressed in red blazers attend to clients.

"There's an increasing risk appetite and willingness to search for greater returns"—*Brad Whittfield, KPMG*

Qatar doesn't reveal the size of its assets, but the London-based Sovereign Wealth Fund Institute estimates its holdings at $256 billion, making it the ninth largest in the world while ADIA ranks second with $773 billion behind Norway in first.

"Funds are looking more at emerging markets and investing in private equity, real estate and infrastructure in places like Africa and India," says Brad Whittfield, associate director of sovereign wealth funds and private equity at KPMG in Dubai. "There's an increasing risk appetite and willingness to search for greater returns." —*Stefania Bianchi*

The bottom line Sheikh Al Thani is taking a 10 per cent stake in Spain's El Corte Ingles to add to his investments in major European companies.

Currency

Egypt's Dollar Dilemma Bites Local Businesses

▶ Companies struggle with a curb on black market trade in US currency

▶ "You are solving a problem, and the medicine is bitter"

Egypt's drive to crush the black market for dollars is also crushing Ahmed Mohamed's steel company. Banks, under orders to conserve dollars, won't give him enough foreign currency to import the raw materials he needs. Rules introduced this year cap new deposits at $50,000 a month, so even if Mohamed could get dollars from unofficial currency traders, he can't put them in his bank. "This is unsustainable," Mohamed says as he sits in his factory in the 10th of Ramadan industrial city east of Cairo. "If this goes on for much longer we'll have to take some action, cut some jobs."

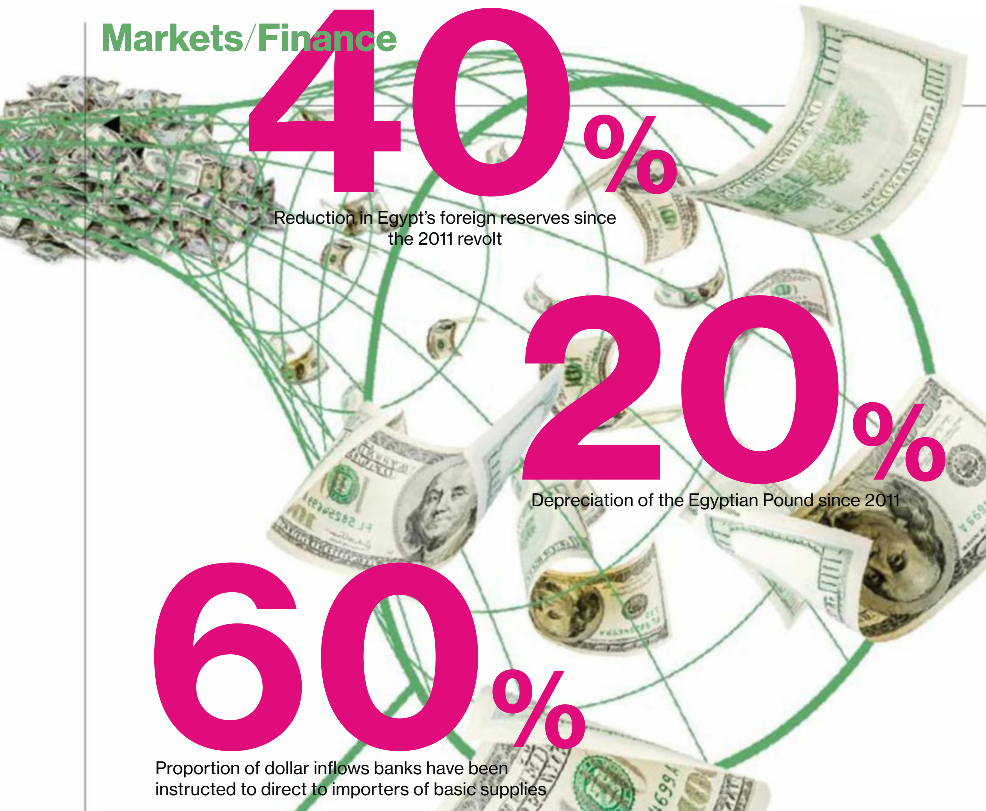
That's the last thing policymakers want, as they seek to revive an economy battered by four years of unrest. Investors and economists, though, say the currency policy is posing a growing threat to its prospects of recovery, and going after the black market may not address the wider problems of an overvalued pound and scarce dollars. Central bank Governor Hisham Ramez has said the strategy is gradually boosting dollar holdings at the nation's banks.

Even after billions of dollars in aid from Egypt's oil-rich Gulf allies, foreign reserves are down more than 40 per cent since the 2011 revolt that ousted Hosni Mubarak. The currency shortage is the main challenge for Egyptian businesses, a bigger problem than the surge in militant attacks, according to the latest Purchasing Managers Index survey by Emirates NBD released on 5 July.

The central bank says lenders are currently told to give priority to importers of essentials such as food. Ramez has said the cap on deposits is already squeezing the black market, prompting Egyptians to take their dollars to banks instead. The restrictions will likely be eased gradually as dollar holdings at banks increase, says Hany Farahat, a senior economist at CI Capital, a Cairo-based investment bank. "You are solving a problem, and the medicine is bitter," he says.

Egypt's foreign-currency receipts plunged after 2011, as unrest scared off investors and tourists. The central bank, which manages the pound, has allowed it to depreciate by more than 20 per cent since then. Ramez, who says he doesn't have a targeted exchange rate, let the currency weaken an additional 2.5 per cent in the first ▶

PHOTO ILLUSTRATION BY SJC; AFP



week of July, before halting on 9 July at 7.83 per a dollar, where it remained through 28 July.

It may not have fallen far enough. A JPMorgan Chase index shows that, when adjusted for inflation and measured against Egypt's trading partners, the pound is near its highest level in 15 years. Jason Tuvey, an economist at London-based Capital Economics, says it needs to weaken by at least another 5 per cent to restore Egypt's competitiveness. "It's likely to be a start-stop process getting there," Tuvey wrote in a report on 5 July.

Uncertainty over the pace and timing of a possible devaluation may be keeping investors away from Egypt's equity and debt markets. The main stock index overtook Colombia's benchmark gauge of equities to become the world's worst performer after the government barred Egyptian investors from acquiring foreign currency by buying shares locally and selling them abroad. Proceeds must now be collected in Egyptian pounds.

"FX policy remains the key overhang on the market and the broader economy," EFG-Hermes, Egypt's biggest investment bank, said in a report. Foreign investors find it "increasingly difficult to read the Central Bank of Egypt's policy," and may prefer to "wait for greater clarity."

Egypt's government estimates that the economy grew more than 4 per cent in the fiscal year that ended June, the fastest pace since 2010. Yet while foreign direct investment and tourism receipts have increased, they're still well below pre-2011 levels. A shortage of energy is hurting Egyptian industry's ability to earn foreign currency: Non-oil exports have slumped this year as factories struggle to secure enough natural gas to operate.

Ramez, in a televised interview in May, urged Egyptians to reduce imports of luxury goods to save scarce dollars. He said banks have been instructed to direct 60 per cent of their dollar inflows to importers of basic supplies such as food.

In the long term, for Egypt to alleviate its dollar shortage, "there is no other way than having an economy that generates FX revenue," says Philippe Dauba-Pantanacce, senior Middle East, North Africa and Turkey economist at Standard Chartered in London. In the meantime, he says, the central bank "doesn't have a lot of options in its hands but to ration foreign exchange," and it will probably have to let the pound depreciate even further.

Mohamed, the steel manufacturer, said he'd rather see a devaluation than be left wondering what happens next. "Every few days I get $10,000 or $20,000, not nearly enough to cover my needs," he says. "I don't care if the exchange rate reaches 10 pounds to the dollar. We need dollars to be available at a stable rate so we can plan for our business."—*Ahmed Feteha with assistance from Ahmed A. Namatalla*

The bottom line Egypt's lack of dollar reserves and its overvalued pound are holding local businesses back.

Private Equity

The Ex-Banker and His Sheikh-Backed Start-Up

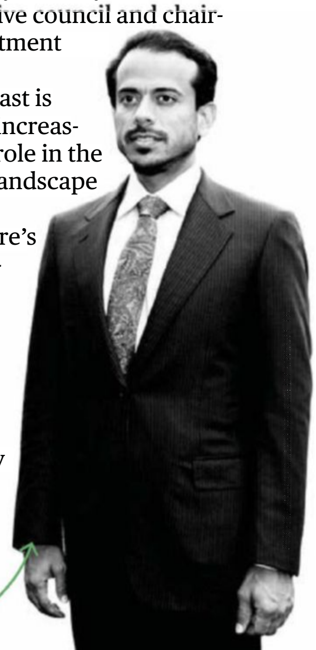
▶ **Shailesh Doshi joins line of senior bankers to strike out on their own**

▶ **"This is a people's business at the end of the day"**

A former **Deutsche Bank** banker is starting a Middle East-focused private-equity and advisory firm backed by an Abu Dhabi sheikh that plans to capitalise on rising investment opportunities in the region. Shailesh Doshi, previously co-head of the German bank's Gulf investment-banking coverage, says he is setting up **Aramis Partners** in the Dubai International Financial Centre. The firm, which is seeking a regulatory licence, will be chaired by Sheikh Sultan Bin Tahnoon Al Nahyan, a member of the Abu Dhabi royal family who's on the emirate's executive council and chairman of its Department of Transport.

"The Middle East is going to play an increasingly important role in the global business landscape going forward," Doshi says. "There's a meaningful opportunity for a well-connected firm like ours to provide high-quality advice and make targeted private-equity investments."

He's not the first to strike



Sheikh Sultan Bin Tahnoon Al Nahyan will be chairman of Aramis Partners

out on his own in Dubai as banks from **Credit Suisse Group** to **UBS Group** cut jobs after the financial crisis and Deutsche Bank itself grapples with missed profitability targets and a lagging share performance.

Doshi, who says he left Deutsche Bank on good terms, argues the network and experience of those backing the new firm will help differentiate his business from the competition. "Doing business in the region is mostly about having the relationships that matter," he says. "This is a people's business at the end of the day and our strength is that we have access to some of the top names in the region."

Doshi, 44, has worked for 20 years in corporate finance, investment banking and accounting. Prior to joining Deutsche Bank in 2006, he worked for Citigroup's technology, media and telecommunications investment-banking division in London.

The Aramis board includes two vice chairmen. Saeed Mubarak Al-Hajeri is chairman of **Abu Dhabi National Energy**, known as Taqa, and has a senior IT role at Abu Dhabi Investment Authority, one of the world's largest sovereign wealth funds. Mubarak Hamad Al Muhairi is former managing director of the Tourism Development and Investment Corporation of Abu Dhabi. Both are also founding members and key investors in the firm, which plans to add more board members soon. Doshi will be a managing partner and sit on the board.

Senior bankers who've also decided to strike out alone include Samer Katerji and Rody Yared, two former investment bankers from JPMorgan Chase and Citigroup who started Trussbridge Advisory DIFC to tap appetite for deals in the US and Canada. Albert Momdjian, who handled UBS Group's wealthiest clients in the Middle East, quit last year to start an investment company in Dubai. Viswanathan Shankar, the Dubai-based former CEO of Standard Chartered for Europe, Middle East, Africa and Americas, left the London-based bank to set up a $1 billion private-equity firm focused on Africa, Middle East and Asia.

> "There's a meaningful opportunity for a well-connected firm like ours to provide high-quality advice and make targeted private-equity investments."
> —*Shailesh Doshi, managing partner of Aramis Partners*

Aramis will offer corporate advisory services to small and medium-sized enterprises in the Middle East and also seek to make private-equity investments across different sectors. Aramis also plans to offer asset-management services, Doshi says.

The venture already has capital commitments from both regional and international anchor investors, Doshi says, adding that he plans to provide further details once the firm is fully licensed and operational. Large banks operating in the region have mostly shunned local small and mid-sized entities, which Doshi says are growingly rapidly, creating a "huge gap for quality advice."

The firm is yet to decide on the structure of its private-equity business, he says, but will do both growth capital and leveraged buyout deals if required. "We already have a number of very interesting transactions that we are reviewing, and will be executing some of these as soon as we are licensed and operational," he says. —*Dinesh Nair*

The bottom line Top talent from global banks is striking out on its own to exploit investment opportunities across the Middle East.

Bonds

Bonds Just Ain't What They Used to Be for Banks

▶ Competition for issues sees income from advising on bond sales tumble

▶ "The regional banks have really stepped up"

Investment banking fees in the Middle East and North Africa are doing well this year–just don't ask about bonds. The region's banks earned 25 per cent less from advising on bond sales in the first five months, according to New York-based Freeman, even as issuance was little changed. Fees income in everything from loans to equity sales rose. Earnings may have fallen further as issuance ended the first half 12 per cent lower than in 2014, data compiled by Bloomberg show.

The figures point to mounting competition for the likes of **JPMorgan Chase** and **HSBC** in the lucrative bond-arranging space, where local players including the largest banks in the UAE are aggressively chasing a bigger market share. Local lenders account for four of the top 10 MENA bond arrangers this year, their best showing in the first half since at least 2009. "There's a lot more competition," Abdul Kadir Hussain, chief executive officer at Mashreq Capital DIFC, says. "Banks like **NBAD** and **ENBD** have been very aggressive in going out there. Issuance has been extremely weak as well."

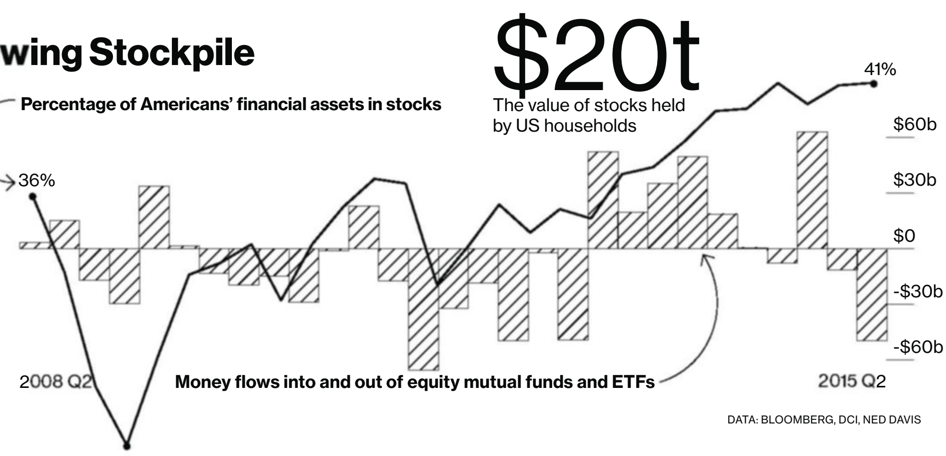
National Bank of Abu Dhabi, the UAE's biggest lender, has participated in 15 bond sales this year, three ▶

Portfolios America's Growing Stockpile

In a year when investors have pulled about

$60b

from stock funds, the value of all US shares has increased by $115 billion. Stocks now represent 41 per cent of Americans' financial assets, matching the high of 2007 and trailing only the 54 per cent reached during the Internet bubble. —*Lu Wang and Jennifer Kaplan*

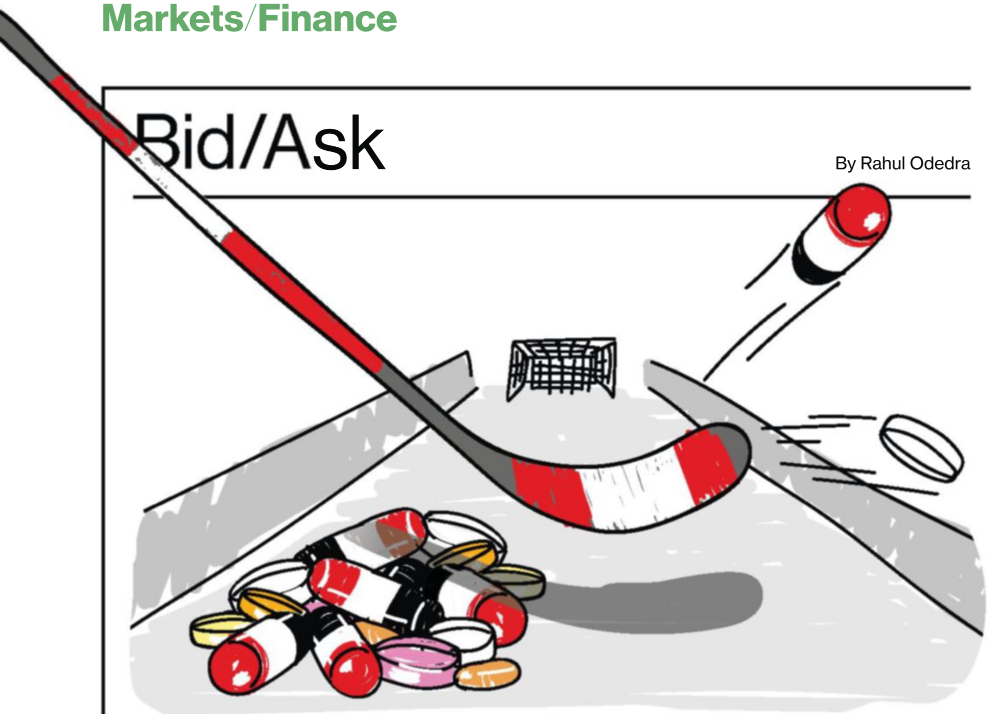


DATA: BLOOMBERG, DCI, NED DAVIS

ILLUSTRATION BY SJC; AFP

Bid/Ask

By Rahul Odedra



$800m

Valeant Pharmaceuticals is to buy Egyptian drugmaker **Amoun Pharmaceutical**, giving the Canadian company another platform from which to expand in emerging markets. The deal, its first in the Middle East, will see Valeant acquire Amoun from funds run by Capital Group, Concord International Investments and the Rohatyn Group. Amoun, the largest domestic drugmaker in Egypt, is expected to generate sales of 1.75 billion Egyptian pounds ($223 million) this year, according to Valeant.

$3.1b	**Abu Dhabi National Energy homes in on loan.** The energy company was expected to close the loan in July after banks including Standard Chartered joined the deal.
$3b	**HNA Group grabs an airport luggage handler.** The owner of China's fourth-largest airline is said to be in talks to acquire Swissport International.
$3b	**Turkish Airlines seeks loans.** The airline is said to be in talks with lenders to finance aircraft purchases, with loans expected to run from 10 to 14 years.
$564m	**Limitless to pay banks and creditors.** About 90 per cent of the funds will be paid by the Dubai-based developer to lenders, after it sold part of its Saudi land bank.
$180m	**Loans for Turkish renewable energy projects.** The European Bank for Reconstruction and Development will provide the loans to two Turkish banks.
$28m	**Joan Rivers' apartment sold to "Middle East royalty".** According to CNBC, the unidentified buyer paid the asking price for the four-bedroom triplex apartment in Manhattan.
$8.4m	**Marka acquires ice-cream master franchise.** The Dubai-listed company has bought the Middle East franchise operations of Morelli's Gelato.

◀ more than in the year-earlier period, according to data compiled by Bloomberg. **Emirates NBD**, Dubai's biggest bank, took part in four more sales, bringing its total to 14. NBAD ranks third by amount arranged after **Citigroup** and HSBC, while Emirates NBD climbed to the sixth position from 10th. "There's a proliferation of new entrants to the market who are competing on price and consequently we are experiencing downward pressure on fees," Andy Cairns, the global head of debt origination and distribution at National Bank of Abu Dhabi, says.

Cairns says he increasingly sees the emergence of two types of bookrunners. The first group is responsible for idea generation, for transaction advice and deal structuring. The second group is brought in much later in the execution process, either for relationship reasons or for balance-sheet commitment. The economics between the two hierarchies are different, he says. "We're seeing a number of local bookrunners be appointed on the basis of sizable lead orders, but they're not contributing to the structuring of the transaction, nor to distribution," Cairns says.

Bond sales in the Middle East and North Africa have declined to $25.7 billion in the first-half from $29.3 billion in the year-earlier period, according to data compiled by Bloomberg. At the same time, loans valued at $38.3 billion were arranged, the data show. Still, bond issuance could increase if US interest rates go up in September, the Greece debt crisis improves and if you get a "period of calm in regional geopolitics," Hussain says.

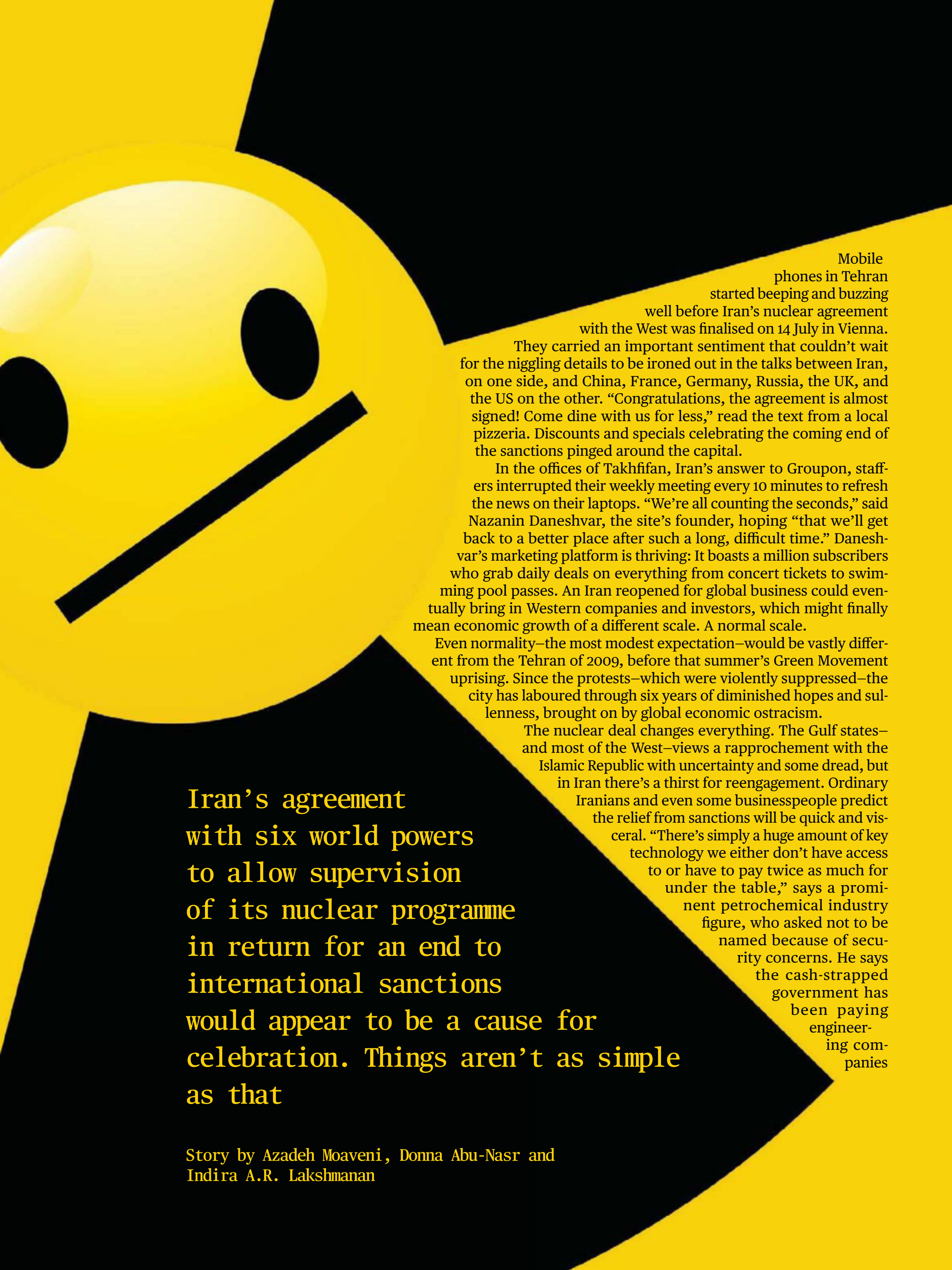
Bond fees are expected to decline 16 per cent this year to $85 million, the lowest since 2011, according to Freeman. They were at $35 million from January to May.

Regional banks are seeking to boost fee income to help cut their reliance on lending. They have also hired from foreign banks to improve their know-how from structuring deals to distribution. "The regional banks have really stepped up and so that just means there are more strong players in the market," Michael Grifferty, president of the Gulf Bond and Sukuk Association, says.

The bottom line Greater competition and fewer bond issues are seeing fees earned by MENA banks for advising on sales fall.

ILLUSTRATION BY SJC

THE NEW MIDDLE EAST



Iran's agreement with six world powers to allow supervision of its nuclear programme in return for an end to international sanctions would appear to be a cause for celebration. Things aren't as simple as that

Story by Azadeh Moaveni, Donna Abu-Nasr and Indira A.R. Lakshmanan

Mobile phones in Tehran started beeping and buzzing well before Iran's nuclear agreement with the West was finalised on 14 July in Vienna. They carried an important sentiment that couldn't wait for the niggling details to be ironed out in the talks between Iran, on one side, and China, France, Germany, Russia, the UK, and the US on the other. "Congratulations, the agreement is almost signed! Come dine with us for less," read the text from a local pizzeria. Discounts and specials celebrating the coming end of the sanctions pinged around the capital.

In the offices of Takhfifan, Iran's answer to Groupon, staffers interrupted their weekly meeting every 10 minutes to refresh the news on their laptops. "We're all counting the seconds," said Nazanin Daneshvar, the site's founder, hoping "that we'll get back to a better place after such a long, difficult time." Daneshvar's marketing platform is thriving: It boasts a million subscribers who grab daily deals on everything from concert tickets to swimming pool passes. An Iran reopened for global business could eventually bring in Western companies and investors, which might finally mean economic growth of a different scale. A normal scale.

Even normality—the most modest expectation—would be vastly different from the Tehran of 2009, before that summer's Green Movement uprising. Since the protests—which were violently suppressed—the city has laboured through six years of diminished hopes and sullenness, brought on by global economic ostracism.

The nuclear deal changes everything. The Gulf states—and most of the West—views a rapprochement with the Islamic Republic with uncertainty and some dread, but in Iran there's a thirst for reengagement. Ordinary Iranians and even some businesspeople predict the relief from sanctions will be quick and visceral. "There's simply a huge amount of key technology we either don't have access to or have to pay twice as much for under the table," says a prominent petrochemical industry figure, who asked not to be named because of security concerns. He says the cash-strapped government has been paying engineering companies

with shiploads of oil. "It will be a relief simply getting paid with regular cash."

After the US imposed banking sanctions in 2011, businesses faced crushing day-to-day challenges that made everything from obtaining letters of credit to buying spare parts and transferring money from abroad onerous. Even seemingly benign information was hard to get: "If you want to read a *Harvard Business Review* article, you have to jump through six hoops," says Ali Ghezelbash, co-founder of the European Iran Research Group. Getting onto the magazine's website was circuitous, requiring the use of private virtual networks and proxy servers; receiving a hard copy via subscription was impossible.

Iranian consumers say they hope a deal will mean better products and fairer prices. Young people like Bahram Naderi, 27, want to have access to the world again. The computer science graduate from Islamic Azad University used to be able to travel abroad once a year and purchase the occasional gadget to help him stay on top of his field. Three years ago, he started a master's business programme at a college in Cyprus, but he had to quit and return to Iran when inflation spiked and the Iranian rial plummeted, halving his savings. "My dreams crumbled," he says. Inflation is lower today, and Naderi hopes the deal will bring costs down even more, making studying and travelling abroad again within reach of the middle class.

If you drive up and down Tehran, it's hard to know that Iran has been suffering. The city is cleaner and greener than before, according to Ghezelbash, who shuttles between Iran and Europe. "This has never been a place that was about to crumble," he says. "But the opportunity cost has been high." What a deal will do most immediately is restore enough optimism so Iranians will invest in their own country again. "That kind of psychology will take on a life of its own," he says. "If people are hopeful, they're likely to take more risks, get involved in entrepreneurship and new ventures."

Optimism does have its limits, though. Iran's labour force, while young and highly educated, isn't well-trained to meet the needs of international companies. Corruption and bureaucratic red tape are endemic. The country's darkest realities–the heavy-handed role of the Revolutionary Guards across the economy (dominating gas pipeline and infrastructure projects as well as critical industries such as telecommunications) and radical hard-liners itching to sabotage the rapprochement–stand as potential spoilers. Those powerful interests kept Iran isolated; until they're pushed to the political and economic margins, real growth will be elusive.

Takhfifan's Daneshvar says she's realistic: "It's going to take years for things to really change." For the tech business, where there has been an impressive number of startups despite high inflation and economic malaise, Iran's opening will bring as much anxiety as potential. Entrepreneurs expect rivals, backed by Western venture capitalists, to enter the market. If they don't buy or join with locals, they could pose tough challenges.

Yet the country's mercantile instincts are undeterred. Its urban classes were once cyber innocents: Now, almost everyone is savvy to e-commerce and online security. In Silicon Valley, thousands of entrepreneurs of Iranian descent, such as EBay founder Pierre Omidyar and Google executive Omid Kordestani, have been trailblazers in the tech industry; they could be looking for a moment to come back to Iran, make a fortune, and help rebuild their country. Some who dipped in during the moderate era of the early 2000s–before sanctions made business impossible–could rev up their operations again. Xanyar Kamangar, the Tehran-born founding partner at investment firm Griffon Capital, says, "This historic deal will pave the way for the opening of the last major frontier market."

While the end of economic sanctions as part of the nuclear deal has been portrayed as a gold-rush opportunity in an oil-rich Gulf state, returning to business as usual won't be as easy as the burst of enthusiasm suggests. Investors who wait months for sanctions to be lifted–before their removal UN monitors must verify Iran has curbed its nuclear activities and addressed suspicions that it sought to develop nuclear weapons in the past–will then have to gamble that they won't run afoul of enduring blacklists or the vow by the US and other world powers that sanctions will "snap back" into place if Iran fails to live up to commitments to restrict its nuclear programme.

"Hotel rooms in Tehran will be booked solid for months to come, and I think we'll see some quick movement even by significant players in different markets," says Suzanne Maloney, an Iran and Arabian Gulf energy analyst at the Brookings Institution in Washington. Even so, she says, many companies "will probably look with a significant amount of caution based on their previous experiences in Iran as well as concerns about the continuing degree of enforcement of current US sanctions and exactly how the sanctions will be unwound."

While the reopening of Iran holds appeal for industries from automotive and aircraft manufacturing to makers of consumer goods, the country's economic attraction is always about energy first of all. It holds the world's fourth-largest reserves of oil and the second largest of natural gas. When sanctions are lifted, the first beneficiaries are likely to be Iran's state-owned oil company and the five countries currently permitted to buy its crude–China, Japan, South Korea, India and Turkey–as well as European nations that had ceased buying from Iran. Oil sanctions imposed in 2012 cut Iran's exports by more than half to 1.1 million barrels per day, depriving the government of its leading source of revenue. The new agreement will let Iran add about 500,000 barrels a day by mid-2016, and 500,000 a day more by the end of next year, Commerzbank estimates.

The biggest investment opportunities from abroad may lie in Iran's need for capital and technology to revive its aging energy

Iran's History of War and Deceit

Key events in the development of Iran's nuclear work and diplomacy.

1980 — 1990

1980
Iraq invades Iran, begins using chemical weapons.

OCT. 1980
Future Iranian president Ali Akbar Rafsanjani says lesson of the war is that "we should fully equip ourselves."

NOV. 1992
US Central Intelligence Agency report warns that Iran could develop nuclear weapons by 2000.

JAN. 2002
US President George W. Bush names Iran as part of an "axis of evil," along with Iraq and North Korea.

> "The more that Iran has legitimate ways to compete for influence in the region, it will compete legitimately. The more it is ostracised and treated as a rogue state, it will behave as a rogue state."
>
> – Paul Pillar, a former officer in the Central Intelligence Agency

infrastructure. Within hours of the news that a deal had been reached between Iran and the six world powers, Royal Dutch Shell and Rome-based Eni expressed interest in returning to Iranian energy projects as soon as it's legal. Cabinet ministers from France, Germany, India, South Africa, South Korea, Pakistan and Turkey said their governments support companies exploring business opportunities in the second-largest economy in the Middle East. German Vice Chancellor and Economy Minister Sigmar Gabriel plans to travel to Iran this month. "Iran will get immediate relief primarily in the form of improved expectations, access to some restricted hard currency, and domestic investment," says Richard Nephew, a former sanctions expert on the US negotiating team with Iran who's now a fellow at the Center on Global Energy Policy at Columbia University in New York. "Long-term international investment will lag."

Over the past five years, a web of overlapping US, European and United Nations sanctions cut off Iran from the international financial system and forced out most foreign businesses. Iran's oil exports, its leading source of revenue, were slashed by more than half, its currency plummeted and inflation soared. Under the nuclear accord, which still must survive what is shaping up as a fractious debate in the US Congress, Iran could be freed from economic and financial sanctions by late 2015 or early 2016 once UN monitors have carried out their initial inspections, which US officials estimate will take about six months. After that, Iran will be able to export oil without restrictions, and companies from abroad will be permitted to ship, insure, trade, broker, transfer payments and invest.

Iran's national oil company, its ports and national shipping line, its central bank and most of its airlines will be taken off sanctions blacklists. Most of its banks will be reconnected to the leading global financial-messaging system that facilitates bank transfers, known as Swift. Iran also will be able to access more than $100 billion in payments for its oil exports that are currently frozen by US sanctions in overseas foreign currency escrow accounts.

But there are significant exceptions to Iran's reopening. Banks, airlines, construction companies and other entities and individuals that have been sanctioned for supporting terrorism or human rights abuses will remain on blacklists. Also, US citizens and companies will still be prohibited from doing business with Iran in all but a few cases including civilian aircraft, food and carpets under the longstanding US embargo on trade with the country. However, foreign subsidiaries of American firms will be allowed to trade and invest.

"Foreign businesses will be slower to return than Iran expects because of compliance, reputational and counterparty risks," says Mark Dubowitz, executive director of the Foundation for Defense of Democracies in Washington, who helped devise US sanctions. "No company wants to wake up to a front-page story that its business partner is Iran's Islamic Revolutionary Guard Corps or that the new US president has re-imposed tough sanctions," Dubowitz says.

That's in part because of lingering fears over record US fines and penalties imposed on companies that violated sanctions on Iran, including $8.97 billion on French bank BNP Paribas last year and $233 million on Paris- and Houston-based oil services giant Schlumberger this year. With such past conflicts in mind, France's Foreign Minister Laurent Fabius said the French, German and UK governments had obtained letters from the US assuring protection from American prosecution for European banks doing business with Iran in the future. Companies will need to ensure that they're not doing business with blacklisted entities such as the Guard Corps, which controls major sectors of Iran's economy. "From a compliance perspective, Iran is going to make Cuba and Myanmar look easy," says Peter Harrell, a former State Department official who worked on Iran sanctions and is now a fellow with the Center for a New American Security in Washington.

Business in Iran will also be complicated by an outdated legal system, restrictive labour laws and a lack of experience in dealing with international investors, says Firas Abi Ali, head of Middle East analysis at IHS Cambridge Energy Research. "Banks will remain hesitant to advance Iran trade credits," says Kenneth Katzman, an analyst at the nonpartisan Congressional Research Service in Washington and an author of reports on Iran sanctions. "Banks are highly risk-averse and will remain hesitant" for a long period of time, he says.

With the accord over Iran's nuclear programme also comes the question of whether, after 12 years of debilitating sanctions, a resurgent nation can avoid escalating its confrontation with a more assertive Saudi Arabia. How that plays out in a Middle East going through its bleakest

2000 2010

AUG. 2002
Iranian opposition group reveals Iran didn't declare construction of uranium enrichment plant in Natanz.

APRIL 2006
Iran first enriches uranium.

DEC. 2006
First UN Security Council sanctions imposed on Iran.

SEPT. 2011
Bushehr, Iran's first nuclear reactor, connects to the grid.

NOV. 2013
Preliminary agreement to limit Iran's nuclear programme in return for relief from sanctions.

APRIL 2015
Framework for permanent agreement reached.

APRIL 2015
Iran agrees to a deal to curtail its nuclear programme.

Sanctions against Iran, devised to bring it to the negotiating table and curb its nuclear programme, made it hard for the country to sell its oil. Deprived of customers and investment, Iranians saw production fall to less than half its peak before the 1979 revolution. The deal between Iran and six major nations lifts those sanctions, and the oil will flow. ——*Mark Glassman and Grant Smith*

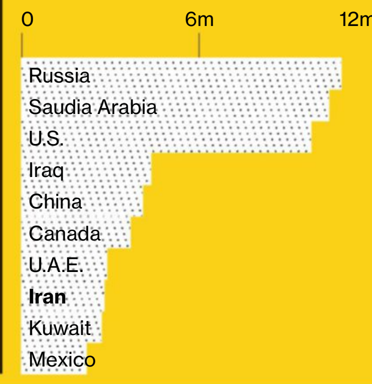
Iran's oil production

1974	2015 (June)
6.1m barrels a day	**2.8m** barrels a day

Daily production could jump to 3.3m barrels as soon as sanctions are lifted, according to the Iranian oil minister's estimates. Six months later, daily production could reach **3.8m** barrels. Analysts say those timetables and estimates are optimistic.

Top crude oil producers

Barrels produced per day (May, June)



Iran's Oil Spigot

period in modern history depends on how Shiite Iran uses its new-found clout and how its Sunni opponents react as sectarian conflicts in part fuelled by their rivalry rage. "The obvious logic would say, 'Yes, Iran is going to get more aggressive, it has more money to do more things,'" says Paul Salem, vice president for policy and research at the Middle East Institute in Washington. "The secondary logic suggests there's a possibility that the moderate camp in Iran can convince the supreme leader to normalise relations with its opponents and reduce tensions in the region."

Wars between forces backed by Iran and Saudi Arabia have left 250,000 people dead since 2011, most of them in Syria, and cost some economies billions of dollars. The Saudis are leading a military coalition against Shiite rebels in Yemen and arming and financing Syrian Sunni fighters seeking to topple President Bashar al-Assad, an Iranian ally. The kingdom has also accused Iran of fomenting unrest in Bahrain and among the Saudi Shiite minority in the oil-rich east. Iran and its allies say the Saudis sponsor Sunni extremists and work against it alongside the US.

Amid the carnage and security vacuum, jihadist groups including the self-proclaimed Islamic State, aka ISIS, have grown in strength and are in turn sponsoring extremist attacks from Tunisia to Iraq. ISIS, which set up its extremist caliphate straddling the Syria-Iraq border a year ago, is a common enemy for Iran and Saudi Arabia. Iranian-backed militias and military commanders have led the fightback in neighbouring Iraq. In recent weeks, ISIS has claimed attacks on Shiite mosques in Saudi Arabia, which left at least two-dozen people dead.

With Iran bound by an international agreement, it now has scope to be more involved across the region, says Paul Pillar, a former officer in the Central Intelligence Agency. "The more that Iran has legitimate ways to compete for influence in the region, it will compete legitimately," says Pillar, now a visiting professor at Georgetown University in Washington. "The more it is ostracised and treated as a rogue state, it will behave as a rogue state." Once inspectors verify Iran's compliance with the terms of the 14 July agreement, the oil-rich nation will be allowed to ramp up energy exports, re-enter the global financial system and access as much as $150 billion in frozen assets. What Iran does with that regained power is the source of much speculation. "Unprecedented chemistry is unfolding in the region," Nabil Boumonsef, a columnist at Lebanon's *Annahar* newspaper, says. "It makes it impossible for anyone to predict what will happen after the Iran deal is struck."

Support for Lebanese militant group Hezbollah, Assad and the other Arab groups that Iran nurtured even with its finances crippled may increase "many fold" with the nuclear accord, says Kamran Bokhari, co-author of *Political Islam in the Age of Democratization*. Iran's power beyond its borders is "what its opponents in the region are worried about," says Bokhari. "Their immediate concern is not Iranian nuclear power."

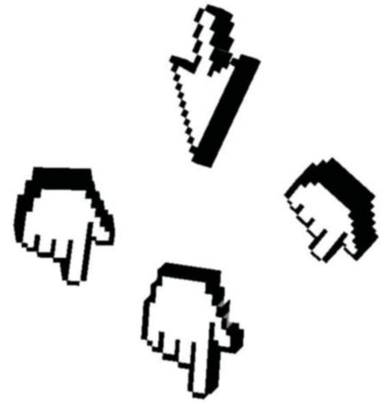
While Iran's international rehabilitation won't happen overnight, the agreement marks a breakthrough between Tehran and Washington, whose relations have been dominated by distrust since the 1979 Islamic Revolution toppled the US-backed Shah Mohammad Reza Pahlavi. Shortly after the agreement was announced in the Austrian capital, Iranian President Hassan Rouhani sought to allay fears it will lead to more instability in the region. "Region's security is our security," Rouhani said on his Twitter page. "Region's stability is our stability. Likewise, our progress is that of the region & will only benefit it."

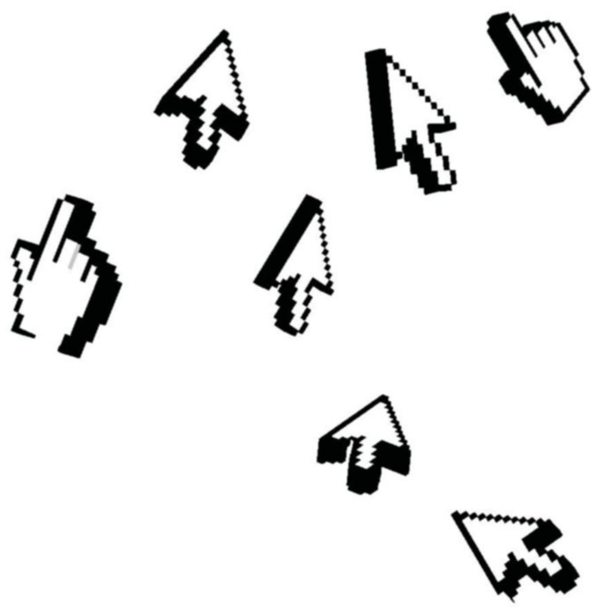
In the UAE, President and Abu Dhabi ruler Sheikh Khalifa bin Zayed Al Nahyan sent a cable to Rouhani congratulating him on the "historic" agreement. When the preliminary agreement was signed in April, Saudi King Salman Bin Abdulaziz said he hoped that a final deal with Iran would strengthen security and stability in the region and beyond.

Iran's government may have resolved the diplomatic technicalities of its confrontation with the West, but it will have to contend with popular expectations. Many in the middle class want loftier change. "There's this underlying mood that there will be a wider opening up," says Nader Hemati, a property developer in Tehran. "People think if these sanctions are lifted, Iran's isolation will end and we'll suddenly have peaceful relations with the world."

A huge proportion of the middle class and even of the working classes hope for wider political and social transformation. Young people want free, fast access to the Internet. Journalists and writers want less censorship. They hope that with the threat of war and conflict receding, Iran's leadership will feel less beleaguered and more inclined to permit basic rights. Rouhani promised all of these things from the same electoral podium he vowed to secure a nuclear deal.

The hopes may sound naive, but it's a sentiment that must now become part of the calculations of the country's rulers. More than sentiment, the market will come into play. "Increased competition will benefit consumers and investors," Ghezelbash says, "but in a roundabout way, also the domestic companies that have been shielded from it. In business, as in nature, there is a limit to how much you can grow while insulated." The transparency demanded by global business dealings may help reform the monopolies that benefited regime cronies, making them less dependent and beholden to the ideologues who run the government. As the Iranian market grows competitive, those who've prospered under the sanctions stand to lose the most when sanctions are lifted. B *—with assistance from David J. Lynch and Gregory Viscusi*





Does Evan Spie Know So Mark Zuc Doesn't?

The Snapchat CEO says he has a better way for advertisers to reach millennials and teens than TV or social networks

By Brad Stone and Sarah Frier
Photograph by Rob Kulisek

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Evan Spiegel begins a conversation in the offices of his startup, Snapchat, by propping a sneakered foot onto an Eames chair, leaning back, and acknowledging how infrequently he speaks to the press. "I literally have not done this in so long," he says, before taking a sip from something called Happy Juice–a blend of pineapple, pear, ginger, and mint. When asked why, he chooses his words carefully. "I've been working," he says. "This is hard!"

Spiegel is the co-founder, chief executive officer, and profane *enfant terrible* behind one of the largest and fastest-growing social networks on the Internet. At 25, he runs a startup with 330 employees and a valuation north of $15 billion, which claims more than 100 million mostly young users. He's also incredibly secretive about his business plans and is an unknown (and arguably underestimated) figure in the intersecting gossip circles of Silicon Valley and Hollywood.

Now he's ready to talk about a major turning point for his company. More than three years after Spiegel founded Snapchat at Stanford with his fraternity brother, Bobby Murphy, 26, he's trying to turn it into a real business. After starting to run select video ads earlier this year, Snapchat is about to begin soliciting other big advertisers with some new numbers that assert its audience is bigger, younger, and more obsessive than the audience for anything on television. In a 23-page sales pitch it's sending to ad agencies this month, the company says more than 60 per cent of 13- to 34-year-old smartphone users in the US are active on the service and together view more than 2 billion videos a day. That's already about half the number of videos people watch on Facebook, which is seven years older and has 10 times as many members.

"When Snapchat started out, I thought it seemed trivial. I was completely wrong," says Chamath Palihapitiya, a former Facebook executive and high-tech investor who hasn't backed Snapchat but watches it closely. "I don't think anyone saw coming what they are building. At worst, they are the next-generation MTV. At best, they are the next-generation Viacom."

Snapchat's ascent has been rocky. The company pioneered a new genre of online messages that disappear seconds after being opened. It suffered a series of public-relations crises caused, ironically, by the publication of internal deliberations and embarrassing e-mails—the kind that never go away. In late 2013, *Business Insider* posted leaked video depositions of Spiegel and Murphy in a lawsuit, since settled, filed by a former Stanford classmate who had the original idea for messages that disappear and felt unfairly cut out of the company. Then there were the bawdy e-mails Spiegel had sent as a student to his fraternity at Stanford, leaked to *Gawker* and published online last May. Finally, there were the e-mails that came out in December in the hack of Sony's computer systems, which exposed secret deliberations about business strategy among Spiegel and Snapchat board members, including Michael Lynton, CEO of Sony Entertainment.

It all combined to give Spiegel a reputation as a cocky, misogynistic Los Angeles rich kid with entitlement issues. On top of that, he was considered egotistical and foolish for turning down an all-cash acquisition offer from Facebook of more than $3 billion in late 2013, when Snapchat's revenue was zero dollars a year.

Yet as Spiegel pointed out in a circumspect commencement address he gave at the University of Southern California's Marshall School of Business on 15 May: "Someone will always have an opinion about you. Whatever you do won't ever be enough. So find something important to you. Find something that you love."

Now Spiegel is eager to set the record straight. Over the course of a 90-minute interview, he discusses books, business strategy, the millennial mindset, and the future of his closely watched company. This time the overall impression is of an independent thinker who's taking the opposite path of many of his rivals not because he's full of himself, but because he believes that young Internet users aren't well served by other for-profit social networks. He eschews data in decision-making, ignores design conventions in his app, and has placed his headquarters near the muscle beach in California made famous in the '70s by Arnold Schwarzenegger, among others. And his unconventional attitudes extend to advertising. "A lot of people look at Internet advertising as a tax on the system," he says. "That's sort of discouraging if you care about making new products and especially discouraging if you feel like you can solve problems."

Snapchat's office, a two-storey loft, is one of about a dozen buildings the company leases in Venice, a block from the skateboard parks, T-shirt vendors, and smoke shops that line the Pacific Ocean. Illustrated portraits of celebrities such as Tina Fey and scientist Edwin Land, from a local artist who calls himself "ThankYouX," hang on the exposed brick walls. Two Segways stand near the front desk, with nameplates for the founders: "Evan" and "Bobby." A glass enclosure visible from the lobby is Spiegel's office, and although he declines to offer a tour, a portrait of Steve Jobs is visible on the wall inside. "This is why we don't allow guests in here," he says grumpily, when asked about it.

In person, Spiegel is a lot like Snapchat: earnest, raw, and unpredictable. He's occasionally modest ("everyone here is stupidly way smarter than me"), while also prone to bouts of inadvertent smugness ("I literally just invented this in my head," he says, drawing a chart on a paper demonstrating the basic elements of the service). And he can be irritable. Tedious queries such as "What's your long-term vision for the company?" are met with answers like "These are the kinds of questions I hate, dude."

His friends and investors say there's a budding business intellect behind the attitude. To sort out tricky issues, he favours long discussions with colleagues during walks along the cement path from his office in Venice to the Santa Monica pier, 2 miles away. He's also a voracious reader who rushes to his office and returns to give me his well-annotated copy of *Thirteen Days*, the seminal account of the Cuban missile crisis by Robert F. Kennedy. John Kennedy "had all these advisers, and they were all changing their minds 50 times a week, with millions of lives at stake," he says. "You have to balance people that are trying to do their jobs."

Although he's a cipher in the Silicon Valley technology community, Spiegel has quietly cultivated relationships with executives such as Google Executive Chairman Eric Schmidt and SoftBank Vice Chairman Nikesh Arora. "What's interesting to me is the pace at which Evan is learning," says Mitch Lasky, a Snapchat board member and investor via the venture capital firm Benchmark. "That's what should scare the competition. He is getting better at the things that are going to make him a great CEO way faster than I think anyone is aware of or expects."

In the beginning, Spiegel says, Snapchat was less about disappearing selfies and more about letting people capture a moment that they can share freely online with whomever they want, without considering broader consequences. In a world where everything on Facebook or Twitter could become part of their permanent Internet persona, impermanence had value to young users. "Before that, most of social media stuff, you take a picture and give [it] to everyone on earth," he says. "Our idea was not that grandiose. It was simple. Let's just take a shot at restoring some context" to the pictures we exchange online with friends.

How Snapchat Works

You don't have to be over 30 to be confused by Snapchat. It's a maze of downswipes, sideswipes, and taps designed for people who already know what they're doing.

1 - Create something to send
The first screen is a camera. Tap the circle to take a picture, or hold it down to take a video. Tap on the finished product to add a text caption, or click the crayon icon to doodle on it. You just made a "snap."

2 - Share it
Send this content to a friend. She or he can view it for a few seconds before it disappears. Or add it to your "story," and they can see it for 24 hours.

3 - Get caught up
Swipe right and you'll get to your in box, where you can see new direct snaps from friends. Swipe left and you can see all your friends' stories.

4 - Or just surf
Once on the "stories" screen, you can swipe left one more time and get to Snapchat's 12 bite-size channels, e.g., *Cosmopolitan*, ESPN, and the Food Network.

"There's a sort of weird obsession with

COURTESY KINGDOM HOLDING COMPANY

Spiegel and his colleagues then took that basic idea and riffed on it. Users can illustrate their “snaps” with playful graphical flourishes and make them available to groups of friends by posting them, sometimes in sequence, to a daily “story,” a kind of visual diary of their day. Snapchat also culls from those stories to create compilations of snaps from college campuses and major cities around the world. Even those vanish after 24 hours. So while members of Facebook and Twitter must judiciously craft posts to avoid future embarrassment, Snapchat users are encouraged to post goofy, irreverent, or salacious thoughts (and images) and to just be themselves.

That’s not the only way Snapchat is different. The service isn’t accessible on the conventional Web, only via smartphones, and a central tenet of the company is that video and photos should take up the entire smartphone screen. He “believes his audience is young people on mobile,” Lasky says, “and he does not believe that the audience is being appropriately serviced by the existing Silicon Valley elites.” Actual teen behaviour tells a slightly different story: Seventy-one per cent of all US teens age 13 to 17 use Facebook, while only 4 in 10 use Snapchat, according to a study this year by the Pew Research Center. And Snapchat’s rivals aren’t sitting still. Twitter has acquired the video-sharing services Periscope and Vine, and Facebook has another way it taps young Internet users–the photo-sharing service Instagram, which it acquired in 2012. Half of all teens use Instagram, according to Pew.

While Facebook and Google focus on technologies that advance material based on what’s popular or useful, Spiegel feels he has a responsibility to show Snapchat’s impressionable young audience things that are meaningful, not just popular. Instead of software decoding a user’s interests from search terms, clicks, and shares, he’s placed a bet on traditional media and old-fashioned editors. Earlier this year he signed up 11 media brands, including CNN, Comedy Central, ESPN, and *People* magazine, and invited them to contribute daily channels of videos and articles that disappear every night at midnight. “There’s a sort of weird obsession with the idea that data can solve anything,” Spiegel says. “I really haven’t seen data deliver the results that I’ve seen a great editor deliver.”

Snapchat’s media partners say traffic to the new Discover page in the Snapchat app started strong when it was introduced in January and fell off sharply after the initial surge of interest. But they say it remains a good way to tap into a hard-to-reach demographic and a mass audience. “If people are going to be increasingly spending more time there and we have the opportunity to tell a story, I want to do it,” says Declan Moore, chief media officer of the National Geographic Society.

Joanna Coles, editor-in-chief at *Cosmopolitan*, says her channel on Snapchat gets about 2 million views a day. “The traffic is good, and they read every story,” she says. “It’s a finite amount of content, which is a perfect snack.”

Spiegel’s averse to most kinds of online advertising. He finds targeted advertising creepy, especially the experience of shopping for a certain product on one site, only to later see ads for it on another. “It’s definitely weird when a vacuum follows you around the Internet,” he says. He’s also ruled out ads on Snapchat that accompany private one-to-one messages between users, judging it too invasive.

Instead, Snapchat started inserting full-screen video ads from such brands as Coca-Cola, McDonald’s, and Samsung into feeds in the media channels and in various “stories” from cities and college campuses. The ads are about 10 seconds long and resemble conventional TV spots, not some novel Internet format. Their most unusual aspect is that they fill the screen when a smartphone is held vertically, without the user having to turn the phone sideways, a distinction the company asserts is important. In its sales document to advertisers, Snapchat claims its users are nine times more likely to watch an entire ad because they don’t have to rotate their phone. In separate research, Google backs up the claim that larger video ads are more likely to be seen. According to a May report from its DoubleClick unit, the most commonly served video ad on the Web and smartphones, a small rectangle that typically appears on the side of a page, is viewed by a pathetic 19.8 per cent of visitors to that page. Snapchat’s vertical orientation also means that advertisers can’t repurpose their existing ads, which are in a horizontal format for YouTube and Facebook. Advertisers say the hassle is expensive, but that doesn’t

the idea that data can solve anything”

In March, Spiegel met with Prince Alwaleed bin Talal (second from right), chairman of Kingdom Holding, at the Kingdom Resort in Riyadh

concern Spiegel much. “We are fortunate that we have an audience that is compelling and big enough that people will change their video to make it a better product,” he says.

Over the past few months, Spiegel has laid out Snapchat’s ad plans in a tour of major agencies and brands in London, Los Angeles, and New York. It’s unusual for an Internet chief to make a business pitch in person. “Embracing the business side early kind of makes him a new kind of social entrepreneur,” says Tom Bedecarre, chairman of the online agency Akqa, who met with Spiegel earlier this year. “Most of these other guys have a frontman to go do their bidding.”

Imran Khan, a former investment banker for Credit Suisse who joined Snapchat as chief strategy officer in December, says that “Evan views advertising as a product, while most Internet founders view advertising as a necessary evil.” Khan is overseeing the ad effort while the company searches for an ad chief.

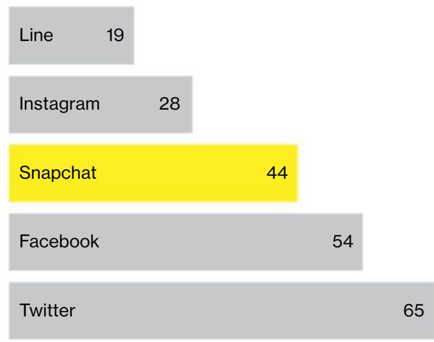
Snapchat may have overestimated the pull it has with advertisers. It started its programme by charging about $100 per 1,000 views, or more than $750,000 for a daylong campaign, more than double the

“These are the kinds of questions I hate, dude”

rates of YouTube or Hulu. Big advertisers with large experimental budgets chalked the rate up to research and development costs and fell in line, just to be first with a chance at wooing a millennial audience. Occasionally the ads do find a satisfying symbiosis with the content. Earlier in May, for example, spots from Coca-Cola and the jobs site Indeed.com congratulated students in ads that were interspersed in daily stories culled from snaps on college campuses during graduation day.

Other companies have balked at ponying up for ads on a service that lacks some of the basic targeting and measurement tools now standard in digital advertising. The ads also don’t receive the crowd feedback that businesses are used to getting on other social media sites, because there’s no way to comment on spots or share them. Scott Varland, creative director at the ad agency IPG Media Lab, whose clients include Sony and MillerCoors, says none of the advertisers he’s pitched on Snapchat want to spend on something so expensive and untested. That’s even after Snapchat’s ad rates have fallen. In May the company announced it would start to charge $20 per 1,000 views, a fraction of its earlier

Months it took to reach 100 million active monthly users



DATA: COMPANY REPORTS

price, agencies say. The company declined to say where prices started.

That’s still higher than many rivals, and some in the industry think Snapchat hasn’t yet made a strong case to advertisers. “I don’t think users go on Snapchat as a destination for content,” says Varland, who says Snapchat needs to give advertisers ways to expand their reach on the service and target specific bands of users. “They think of it as a platform to communicate with their friends. So unless it’s integrated into messaging, I don’t see a huge value for brands.”

In addition to doubts about advertising on a messaging service, Spiegel must combat scepticism about his leadership. Can a 25-year-old with a few blunders in his past lead a hot social startup through its next stage of growth and toward an initial public offering?

Critics are quick to point out Spiegel’s latest mistakes. In the last year he’s hired several senior executives from companies such as Facebook, including a chief operating officer, Emily White, who was gone after 15 months. People close to Snapchat suggest Spiegel wanted to be a hands-on boss, which left little room for a traditional COO. He declines to discuss the matter but says broadly, “Our desire to get things right is unexpected and surprising to people, so it’s easier to explain it away with a narrative” that he’s a fickle boss. White didn’t reply to a request for comment.

Some users also criticise Spiegel for developing a service that’s difficult to use and remains somewhat mystifying to anyone born before 1985. (“The user interface and design looks like the cross between a weird Japanese animation and a 1980s sitcom,” wrote the *New York Times*.) For example, there are no intuitive buttons, just cryptic icons and swipe gestures that trigger different functions. It’s nearly impossible to search for other users, unless you know their Snapchat names or cell phone numbers. “I get that it looks different. It looks different because it’s something that is new,” Spiegel says. The company could simplify the service and develop such features as a user directory, he says, but he’s more interested in innovating—70 per cent of the company’s engineers are working on new products.

Naturally, he won’t elaborate on these, but it’s not that hard to guess: anything that young people want to share, interact with, and talk about, such as games, products to buy, and other kinds of media, such as music and movies. In the e-mails between Spiegel and Lynton at Sony, published in the leaked Sony e-mail troves in December, Spiegel talked about efforts to form partnerships with music services Vevo and Spotify and even expressed interest in buying a record label, so he could promote its artists on Snapchat.

After those e-mails were exposed, Spiegel wrote a memo to company employees, which he posted on Twitter. It expressed in personal terms how he felt about the leaks—“Definitely angry. Definitely devastated”—but also sounded like a corporate mission statement for creating discreet communication tools. “Keeping secrets gives you space to change your mind, until you’re really sure that you’re right,” he wrote. He ended with what sounded like a battle cry: “We’re going to change the world because this is not the one we want to live in.”

Asked what he meant by that, Spiegel goes on an “off the record” tirade, condemning the media for dredging through the private correspondence with little regard for the Sony employees whose data had been exposed. Ultimately, though, he shies away from conceding that Snapchat’s mission is to change a culture that seems hellbent on exposing everything.

“We don’t have the skills to solve that yet,” he says. “I am 25 years old. We have been doing this for four years. I’m not going to stand up and make a statement that is that ludicrous. We just don’t have the capability to solve that. I’m sorry. We help people share pictures.”

Are you proud of what you have accomplished so far?

“I’m proud of our team,” Spiegel answers after a pause. “And I’m proud of what I think they will do.” B

How Uber Rolls

To conquer America's quirkiest city, the company unleashed its biggest weapon: Lobbyists

By Karen Weise

Illustrations by Scott Gelber

Charlie Hales, the mayor of Portland, Oregon, was running a zoning hearing last December when he missed a call on his cell from David Plouffe, the campaign mastermind behind Barack Obama's ascent. Although Hales had never met him, Plouffe left a voice mail that had an air of charming familiarity, reminiscing about the 2008 rally when 75,000 Obama supporters thronged Portland's waterfront. "Sure love your city," Plouffe gushed. "I'm now working for Uber and would love to talk."

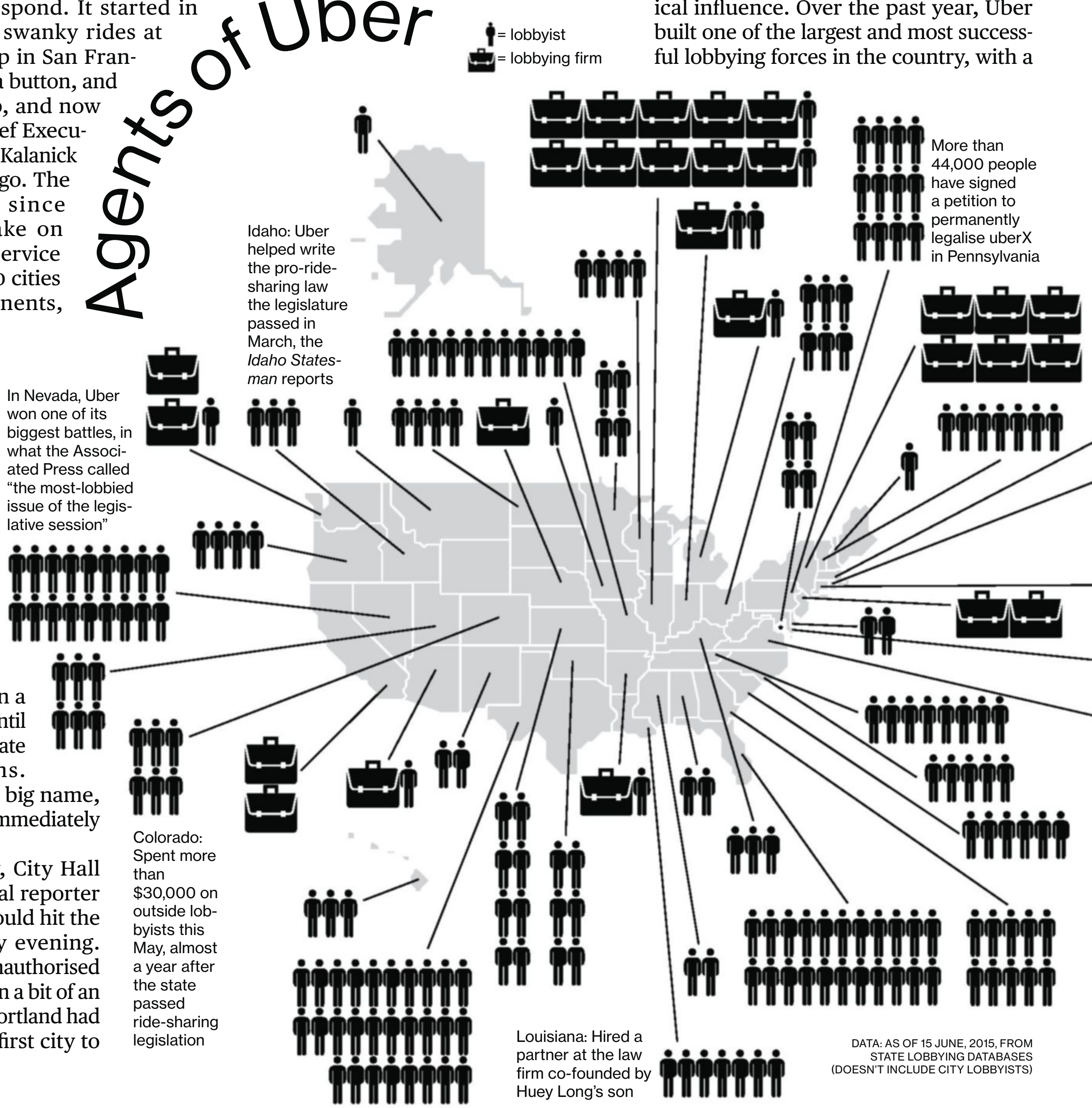
Hales, like many mayors in America, could probably guess why Plouffe was trying to reach him. Uber's made a name for itself by barging into cities and forcing politicians to respond. It started in 2010, providing swanky rides at the tap of an app in San Francisco. "I pushed a button, and a car showed up, and now I'm a pimp," Chief Executive Officer Travis Kalanick said four years ago. The company has since expanded to take on lower-cost taxi service in more than 300 cities across six continents, ballooning to a $40 billion valuation. At the time of Plouffe's call, Uber already operated in several Portland suburbs, and over the previous few months Hales's staff had asked the company to please hold off on a Portland launch until the city could update taxi regulations. Plouffe may be a big name, but Hales didn't immediately call him back.

The next day, City Hall heard from a local reporter that Uber cars would hit the streets that very evening. The company's unauthorised kickoff put Hales in a bit of an artisanal pickle. Portland had just become the first city to explicitly allow short-term rentals through Airbnb and other sites, and welcoming Uber could help build the city's sharing-economy brand, a logical extension of its communitarian roots. On the other hand, aggression is so not the Portland way.

Hales gathered Transportation Commissioner Steve Novick and three aides to call Plouffe. Hales would play the good cop to Novick's bad cop. The roles were fitting: Hales comes off like the thoughtful baby boomer dad on *Family Ties*, while Novick's known around town for his fiery wit. (In a campaign ad mocking the idea that voters should elect politicians who are relatable drinking buddies, Novick, who was born without a left hand, pops open a bottle of beer with his prosthetic metal hook. "Steve Novick," the voice-over said. "He's always found a way to get things done.") The group huddled around Hales's cell phone on speaker mode as the mayor dialled Plouffe.

A year ago, Colorado passed the first ride-sharing legislation in the country. Since then, about 50 US jurisdictions have adopted ordinances recognising Uber and Lyft as a new type of transit provider called "transportation network companies." Each government, whether municipal or state, goes through its own process to craft rules, but in the end, officials generally codify the insurance coverage, background-check policies, and inspection protocols Uber already has in place. Uber makes the rules; cities fall in line. There are some small differences between their regulations, but, as Plouffe says, "the core is remarkably similar."

The success, says Justin Kintz, Uber's head of public policy for North America, is "a tale as old as time—it's the power of the people." It's also a tale about the power of backroom lobbying. Although Uber promotes itself as a great disrupter, it's quickly mastered the old art of political influence. Over the past year, Uber built one of the largest and most successful lobbying forces in the country, with a

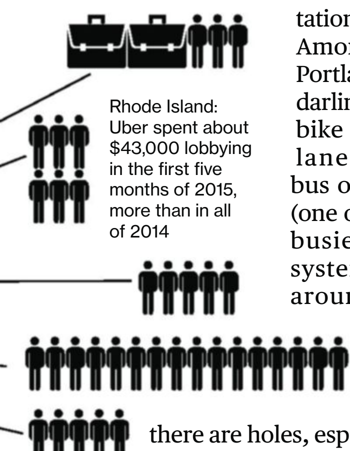


presence in almost every statehouse. It has 250 lobbyists and 29 lobbying firms registered in capitols around the nation, at least a third more than Wal-Mart Stores. That doesn't count municipal lobbyists. In Portland, the 28th-largest city in the US, 10 people would ultimately register to lobby on Uber's behalf. They'd become a constant force in City Hall. City officials say they'd never seen anything on this scale.

When Hales got through to Plouffe, he said he'd heard a "disturbing rumour" that Uber planned to start operations. "That," he said, "would be a bad way to start." Plouffe responded with a drawn-out silence. Before Plouffe mustered a reply, Novick erupted: "Mr. Plouffe, if you come to Portland without following our rules, we're going to throw the book at you!" But as Portland would learn, a city of 600,000 can play tough with a $40 billion company, particularly one that is used to getting its way, for only so long.

Kicking off the pilot episode of the TV show *Portlandia*, actors Fred Armisen and Carrie Brownstein set the scene for the show's satirical wet kiss to the city. Portland, they sing, is a magical place of awesome weirdness. "It's like Portland's almost an alternative universe," Brownstein swoons. "In Portland, it's almost like cars don't exist. People ride bikes or double-decker bikes, they ride unicycles. They ride trams. They ride skateboards!"

The parody could double as an ad for the city's transportation department. Among urbanists, Portland's a transit darling. People can bike in protected lanes, ride the bus or MAX trains (one of the nation's busiest light-rail systems), or tool around in Smart cars from car-sharing company Car2Go. But there are holes, especially for residents living far from downtown, the disabled, and late-night partyers. The city's taxis have been known to fall short of demand. Portland has fewer cabs per resident than most comparable cities, and drivers take home just $6.22 an hour, according to a 2012 survey. The taxi companies didn't hold traditional political power as major campaign donors or lobbying forces, but their furore succeeded in resisting, or at least delaying, change. It took a nasty four-year battle for a group of largely immigrant drivers to get permits in 2012 to start Union Cab, a driver-owned cooperative.



Uber first targeted Portland in 2013, when it wanted to introduce its luxury car service, UberBlack. It couldn't legally operate because a city ordinance required black-car trips to be reserved an hour in advance, the legacy of a 2009 agreement that carved out separate markets for hire cars and taxis. When Uber showed up, Hales had recently been elected, and his director of strategic initiatives, Josh Alpert, says overhauling the taxi rules was something on Hales's first-term to-do list.

In a town Portland's size, City Hall can juggle only so many issues. Alpert told Uber that before the city could deal with a taxi battle, it had to address more pressing matters, starting with the $21.5 million budget shortfall Hales inherited. "I explained to them that there was going to be a process, and we were nowhere near starting that process," he says.

That didn't sit well with Uber. "Portland has some of the most extreme protectionist laws that we've seen around the country," Kalanick told a local TV station. A few days later, Uber defiantly said on its blog that "outdated local regulations" didn't prevent it from making deliveries, so it ran a one-day promotion serving ice cream around town. It was like when the company shuttled puppies from shelters to offices in 10 cities before the Super Bowl. In City Hall, the ice cream tasted like belligerence. "It was like, 'Whoaaaa,'" Alpert says. "I know every city says this, but we are not used to that in Portland. It was just all about Uber."

Uber soon asked the city's Private For-Hire Transportation Board—made up of industry reps, drivers, and community members—to remove the one-hour requirement. It also deployed some classic political strategies.

Plouffe likens customers to campaign volunteers, and the ice cream stunt provided the company with a database of consumers it could turn into advocates. In an era of low voter turnout, Uber has managed to get almost a million people to sign its petitions in the past year. "Not many private-sector companies have that kind of passionate set of consumers that will go the extra mile," Plouffe says. In Portland, almost 1,700 people signed a change.org petition to "tell Uber to bring their stylish rides to Oregon." The company also solicited supportive letters from local business leaders.

> "If we end up in court, we will have to lose just based on resources"

Uber stopped pushing, as the company's focus across the country was shifting from black cars to the low-cost uberX service, which fell under a different set of regulations. "Uber, to their credit, did go away for a while," Alpert says.

When the company came back almost a year later, both the city and Uber had reason to think the negotiations would be fruitful. Uber had a new local face, General Manager for the Pacific Northwest Brooke Steger, whom Alpert calls "a much easier person to work with." And Portland had just crafted the Airbnb rules, which established that the city wasn't necessarily hostile to sharing-economy services.

Yet Uber was still Uber, and it began strangling Portland. It launched just to the north, in Vancouver, Washington. "Hey Portland," Uber taunted on its blog. "We are just across the river." Soon Uber started operating in several adjacent suburbs. "They basically forced their way into the market and surrounded us, then put the pressure on for us to do likewise," Hales later told a conference of mayors.

The city told Uber that updating the taxi regulations could, finally, happen soon, but first the transportation department had to fix Portland's pothole problem, which required finding millions of dollars in

“We won’t be able to keep

new revenue for the street maintenance budget. Around Thanksgiving, Uber was next in the queue. Uber wanted a firm time frame, which Alpert couldn’t give. “I kept telling them: ‘A little bit longer,’ ” Alpert says. “Strangely, at the last minute, when it was in sight, they were like, ‘Well, we’re done.’ ”

After Plouffe’s call to Hales, Uber went ahead with its unsanctioned Portland launch, throwing a party in a loft to show, the invite said, how Uber was “proud to call Portland (and all of its rain, quirks, and bridges) home.” Partygoers could take photos with protest signs or stop by a postcard station to “drop a note to Mayor Hales.” Uber canned the kinder motto, #WeWantUberPDX. In the first four hours, more than 7,000 people signed a petition now asserting #PDXNeedsUber.

The company released a video with the most Portlandish introduction it could muster, featuring an Uber driver dramatically navigating in the rain, crossing a bridge over the Willamette River, and giving a ride to the Unipiper, a well-known local who rides a unicycle while wearing a Darth Vader mask and playing a fire-breathing bagpipe.

After a weekend of scrambling, the city sued Uber on Monday. Although Uber’s fines would eventually total $67,750, the city’s enforcement efforts evoked the Keystone Cops. Agents conducted stings, but Uber turned off the accounts of city staff so they couldn’t use the app. And at the time, the city believed it lacked the authority to impound cars. Still, the lawsuit captured attention. Portland residents on social media said the law-breaking felt “icky.”

Even the Unipiper backpedalled. “Wow, this whole #Uberpdx thing is really getting crazy,” he tweeted. “No they did not explain to me that they were going to launch illegally,” he wrote. “I do think Portland has been slow to act.” (About the legality of the launch, an Uber spokeswoman now says: “Often regulations fail to keep pace with innovation. When Uber launched, no regulations existed for ride-sharing.”)

Uber’s rules-be-damned approach had served the company fairly well around the country, but the Portland showdown came at a time of particularly intense scrutiny. An executive had mused aloud about spying on journalists, an alleged rape by a driver in India made headlines worldwide, and two California district attorneys sued Uber, claiming it misled consumers about driver background checks. And there was Novick, the transportation commissioner in a city known—even mocked—for being progressive, telling the *New York Times* that “Uber seems like a bunch of thugs.”

Uber hired a new team of local lobbyists headed by Dan Bates, who used to work as Portland’s own lobbyist in the state capitol. Across the country, Uber’s lobbyists have similarly intimate connections. In Kansas, it hired Governor Sam Brownback’s former campaign manager and another lobbyist who also works for Koch Industries. In Connecticut, it contracted with a former House speaker’s firm, and in Illinois it brought on the former governor’s chief of staff.

Soon, Alpert’s phone rang. It was Mark Wiener, whom one local alt-weekly dubbed “The Man in the Shadows” and the “most powerful political consultant” in Portland. Wiener helped both Hales and Novick get elected and is known to work only with clients he thinks will win. Wiener said Uber wanted to know if Hales and Novick would consider a détente. Would they be open to a “conversation about a conversation?”

On a Saturday in mid-December, the two sides met at Wiener’s house. The mayor started by saying the conversation would go nowhere unless Uber stopped breaking the law. “He said it probably five times,” Alpert says. Uber’s Steger and Caitlin O’Neill, an in-house lobbyist who used to work as an organiser for criminal justice reform at the American Civil Liberties Union, apologised. “That was a huge point for the mayor and commissioner to hear,” Alpert says.

Soon they sketched out a compromise. Uber would temporarily cease operations in Portland—a first for the company—and the city would put the lawsuit on hold and give Uber the deadline it wanted, promising to have a community task force figure out rules to get Uber back on the street by early April. It was a brilliant agreement. The city could look like it tamed Uber without costly litigation, and Uber cut in line and became a top political priority. It had a firm timeline, and if for some reason the process fell apart, Uber could say it tried to cooperate. The *Wall Street Journal* cited the agreement to show “How Sharp-Elbowed Uber Is Trying to Make Nice.”

And so Steger and O’Neill found themselves in a packed, fluorescent-lit city conference room in mid-January listening to a grey-haired facilitator kick off the task force with a long-winded joke about parrots and magicians. Over the coming weeks, the task force would hear a host of presentations, from the history of transportation in the city, starting with jitneys and the horse-drawn carriage, to testimony from taxi companies, drivers, and the public. Before various sessions, Uber mobilised its supporters. It hosted breakfast for drivers at a Nuevo Latino restaurant on the morning of their “listening session,” then drinks at an old timey cocktail bar, Raven & Rose, before the public hearing.

In mid-February, O’Neill and Steger sat before the task force to formally pitch their case. Lyft, a competing company that has also been trying to enter the Portland market, was there, too. Again, Uber seemed firmly in control. “I’ve gone through this regulatory process that you all are going through now in several other counties,” O’Neill said leaning into the microphone. “We want to be a resource to you.” She and Steger then ticked through points designed to position Uber as a rule-abiding company that saves lives.

Uber’s policy group has its own team of data scientists, and its presentation included slide after slide of rosy graphics and numbers. To address Portland’s environmental bent, it showed how in San Diego, 30 per cent of uberX rides start or end near a transit station. To show equitable service, it explained that Uber’s study in Chicago found wait times were consistent across the city, regardless of area income. To show drivers make livable wages, it introduced data from Princeton

SKY AND PLOUFFE: GETTY IMAGES

them off the streets much longer”

economist Alan Krueger, who served with Plouffe in the Obama administration, that found uberX drivers made more than $16 an hour.

The inundation of data made it hard to spot holes. The Chicago study was just for people who had the Uber app, so it didn’t address poorer riders who can’t use Uber because they don’t have smartphones, and Krueger’s big pay analysis didn’t ask about how much drivers spend on expenses such as gas and insurance, making it an incomplete earnings picture.

Before a late-February task force meeting, a weary-looking Alpert said there were so many issues to consider that he was trying to keep everyone focused on safety so Uber could still get provisional permits in early April. Other issues, he said, could be dealt with later. “We weren’t having luck stopping them,” Alpert said. “We won’t be able to keep them off the streets much longer.”

On 9 April the task force suggested a 120-day trial period for Uber. It recommended that the City Council accept the insurance Uber provides and let both taxis and ride-hailing apps choose their own background-check providers. The task force also allowed auto shops with fewer credentials to inspect both taxis and the ride-hailing vehicles. Yet there were inequities. Taxis had to carry more insurance, and their rates were capped, while Uber could jack up fares during foul weather or other peak times—a policy the company calls surge pricing. At least 10 per cent of the taxi fleet had to be wheelchair-accessible, while Uber could direct wheelchair-bound passengers to transit companies that serve the disabled.

The taxi industry and its supporters cried foul. One driver compared Uber to Enron because it “doesn’t play by the rules.” A man who regularly attends council meetings and calls himself Lightning said that Uber was already worth billions. “That is what you value the most,” he said, arguing that Uber should make a “reasonable offer” to Portland taxi drivers who lose business.

The proposal needed support from at least three commissioners to pass. The whole process was Hales’s and Novick’s baby, so they provided two likely votes. Amanda Fritz would be a long shot. She was particularly progressive, and her husband had recently died in a car crash, making her vigilant about drivers carrying adequate insurance. Nick Fish wasn’t buying the whole sharing-economy concept—he was the sole commissioner who didn’t vote to allow Airbnb. That left Dan Saltzman, the long-serving council member who championed wide-ranging rules for Airbnb. One City Hall staffer describes Saltzman as the closest thing Portland has to a free-market conservative.

Uber had been working on the council members for months. “They kinda run this,” Alpert said in February. “I keep feeling they will just wear you down. If we end up in court, we will have to lose just based on resources.”

Records show the company had 19 in-person meetings with city officials in the first three months of the year, including one at the end of March, when Uber brought back the big gun, Wiener, to meet with Saltzman, the likely swing vote. Wiener had consulted on Saltzman’s past campaigns. All the meetings, combined with phone calls, meant Uber spoke with City Hall on average almost every other workday. E-mail traffic was even heavier. The city hasn’t released the correspondence, which *Bloomberg Businessweek* requested in early April, saying it’s taken longer than expected because Uber and city staffers exchanged about 300 e-mails that may fall under the request.

As a gesture of good faith, Uber paid its outstanding fines, and the council scheduled the vote on a proposal Novick and Hales submitted in mid-April that echoed the task force’s suggestions with a few tweaks, notably removing the rate cap for taxis. The morning of the vote, Uber hosted a breakfast for about a dozen drivers at a downtown restaurant, then marched the group to City Hall, with TV news cameras in tow. City Council was in session, so an Uber communications manager instructed them to leave a note in the council office. That evening, they returned for official testimony. Both Uber and taxi reps were out in force, with three hours of public comments. “#PDXRides hearing in nutshell,” tweeted *Oregonian* transportation reporter Joseph Rose. “Uber drivers: Portland taxis never show up. Cabbies: Uber drivers are rapists, burglars, criminals.”

In the end, the council approved the 120-day trial period. Saltzman cinched the vote. That Friday, Uber started operating again. The council is slated to take up permanent regulations, with updated requirements for serving passengers in wheelchairs, in late summer.

On 29 April, Uber threw a second launch party, this time at a hand-harvested sea salt factory. Duck breasts with pistachio butter and huckleberry sauce were served; the photo booth no longer had protest signs. Three City Hall aides attended.

The next day, Plouffe and Hales shared the stage at an event organised by TechFestNW. Back in December, Alpert had said he wasn’t having luck getting Plouffe to attend the conference, which is Portland’s answer to Austin’s South by Southwest. Now on stage, Plouffe and Hales were all smiles. Hales teasingly tossed a copy of the negotiating bible *Getting to Yes* to Plouffe, a nod to Novick’s “we’ll throw the book at you!” threat.

Plouffe told the audience that playing nice in Portland isn’t necessarily a model elsewhere. “Maybe it is. Maybe it isn’t,” he said. Despite its wins, Uber still has plenty of battles left in the US, not to mention abroad. It’s recently backed out of places like San Antonio, where it says new rules are too onerous.

It’s nearly impossible to calculate Uber’s ground war costs because many cities and states don’t require the disclosure of lobbying costs. Those that do show that influencing policy doesn’t come cheap. Take Texas. In 2013, Uber had no registered lobbyists in the state. Last year, it reported 14, and so far this year, that’s grown to 28 who have registered to work on Uber’s behalf, with contracts that could total $420,000 to $945,000, according to the filings, more than Philip Morris and Pfizer. In the past year, Uber spent $208,000 in Maryland and $684,000 in California.

City-level battles can be costly, too. Last year, Uber put more than $600,000 into a voter referendum in Seattle and spent $314,000 lobbying in Washington, D.C. The Portland campaign looks quaint by comparison. Uber reported spending about $68,000 on outside lobbyists in Portland and Oregon in the last two quarters.

Just days after the festival, Uber sent an urgent message to Portland users through its app. A bill the taxi industry supported in the Oregon statehouse would require higher insurance coverage. “Portland spent months creating thoughtful regs to welcome ridesharing!” Uber wrote. “Now that’s in jeopardy. Help keep it around.” Attached was a link to a petition, addressed to every member of the legislature. B

—With Eric Newcomer and Olga Kharif


Coffee is the
NEW DESSERT
INTRODUCING OUR NEW
Tiramisu Blended
CUPCAKE
For more details please visit any of our stores or contact us on
@Caribou_social
@Caribou_social
Caribou_social
Caribou
COFFEE®
LIFE IS SHORT.
STAY AWAKE FOR IT.®

ETC

Ad Rock

The Jingle Punks make millions writing music for commercials, reality TV, and "literally anything" that needs a tune

By Claire Suddath

Photographs by Adam Kremer

In a beige soundproof room not much bigger than a closet, Gabriel Kirshoff sits in front of a keyboard, plinking out a pop-rock tune. It's cheerful and swelling, with benign radio appeal that makes it sound familiar, if a bit boring, like something from Fall Out Boy. That's what Kirshoff is going for. He's not trying to write a hit, just something that will make people buy laundry detergent. Or eat a hamburger. Or upgrade their cell phone plan. "I don't know who'll end up using this song," he says.

Kirshoff, 23, is a songwriter for the commercial music company Jingle Punks. He sits in the windowless booth in New York for eight hours a day—"It's OK, I have a sunlamp," he says with a shrug—composing tunes in genres including electronic dance music (EDM) and classical symphony for ads, films, and TV shows. Two of Jingle Punks' other songwriters record in identical cubbies next to him. Sometimes they write tunes for a specific client, but they usually just feed their work into Jingle Punks' library of prerecorded tracks that anyone can license.

The songs are approved by Jingle Punks' co-founder Jared Gutstadt, 37, a former television editor at MTV. Then they're uploaded into the Jingle Player, a searchable music database created by Dan Demole, 36, a former software engineer who's the other co-founder. Their part-Spotify, part-Tin Pan Alley approach has turned the seven-year-old company into the world's top commercial music publishing organisation. With more than 60 employees (including 17 in-house songwriters), hundreds of freelance composers, and offices in Los Angeles, Nashville, New York, and Toronto, Jingle Punks grew from \$5 million in revenue in 2011 to more than \$18 million last year.

From left: Gutstadt, Demole, and Jesse Korwin, a Jingle Punks vice president

In April, Gutstadt and Demole sold Jingle Punks for an undisclosed amount to Ole, a Canadian company that handles international publishing rights to \$400 million worth of music, including much of the Sony Pictures Entertainment catalogue. Ole's tracks were all added to the database, too, which now has more than 500,000 songs. Whether you need a string quartet for your Father's Day commercial or a hip-hop beat to sell a sneaker, Jingle Punks has you covered.

Fees can start at \$500 for a company's internal office video and reach \$100,000 for a national Wal-Mart Stores commercial. Jingle Punks splits royalty payments evenly with individual songwriters. Most musicians don't get the big Wal-Mart cheques, but if they record enough tracks and get them placed in enough spots, the royalties add up. "It's not usually enough to live on, but it's a nice chunk of change," says Lukas Kaiser, a creative director at Viacom who made \$26,000 in royalties last year off songs he wrote in 2008.

For much higher fees, the company does custom commissions. In 2011, Meow Mix conducted a survey and found more people knew the tune to its 1970s jingle than the national anthem, even though it hadn't used the song in commercials since 1996. Last year it hired Jingle Punks to record pop, country, EDM, and acoustic versions of the song to air online. "We thought it was the perfect time to bring the iconic jingle back," says Miranda Lo, Meow Mix's senior brand manager.

"I really think there's an opportunity to do jingles again," says Linda Kaplan Thaler, chairman of the advertising agency Publicis Kaplan Thaler. "All it takes is a few brave souls to say, 'We're going to sell soda—or whatever—with a tune that has the name of the soda in it.' " Thaler would know: She wrote "I don't wanna grow up/I'm a Toys 'R' Us kid." So would Jingle Punks. Along with Meow Mix, the company has had many requests for original songs. In 2013 it persuaded B-list rapper Chiddy Bang to record rhymes about Nabisco's Oreo (sample lyric: "It's just a little sandwich cookie, and it's wonder-filled").

Since the dawn of radio broadcasting in the 1920s, companies have advertised their products with catchy ditties designed to burrow into the subconscious. But when MTV put music on television in the '80s, those sounded dated and lame compared with contemporary hits. "Then Michael Jackson did a commercial for PepsiCo, and that's all companies wanted—real celebrities, popular music," says Timothy Taylor, professor of ethnomusicology at the University of California at Los Angeles, who studies how music is used to sell products.

By the mid-'90s, the jingle was all but dead, replaced with licensed songs by big-name artists. The Rolling Stones shilled for Windows 95; U2 sold iPods. Then came songs that just sounded like hits but weren't. "You could pay \$50,000 to license a famous rock band's song, or you could get someone to copy them for \$5,000," Taylor says. "The rock band is cool, but the soundalike is cheaper." (As long as the song isn't a direct copy, it's perfectly legal.)

This mimic trend gave Gutstadt the idea for Jingle Punks. In 2007 he was working on a Howard Stern special when a producer asked him for music that "sounded like a Quentin Tarantino film." Gutstadt knew what the guy meant—retro, with just a hint of malice—but he didn't know how to find it, so he made something himself. A year later, Gutstadt met Demole at a Black Keys concert and, after several drinks, persuaded him to build a streaming database.

PHOTOGRAPHS BY ADAM KREMER FOR BLOOMBERG BUSINESSWEEK

In 2014, Chicago ad agency FCB hired Jingle Punks to record four songs in different genres for its Meow Mix campaign. Below, Gutstadt annotates the lyrics for the country version.

Jingle Genius

The goal: make fun of "bro country"

He's a hard working man with a lot on his plate

The online-only video features a man singing romantically to his cat

Driving long hours back and forth on the highway

Generic statement No. 1 about a blue-collar man

But when he gets home in the late afternoon

"We wanted it to feel like a truck commercial"

He knows just what he wants to do

Generic statement No. 2 about a blue-collar man

The cat is introduced here

A composer wrote twangy music, then songwriters matched up lyrics

After a long day being on his feet

There's only one thing that makes him feel happy

Memphis musician J.R. Moore recorded it at home

The team spent a lot of time in Nashville, so "it was easy to write something this stupid"

Going home to feed his cat

Cause you know that's where the party's at

In the video, the cat-loving man bales hay and leads a horse

"We wanted to give pop country its *Spinal Tap* moment"

A quiet night at home, a dinner for two

YouTube fans have asked them to put the song on Spotify

The phone keeps ringing but we're not moving

"We were going for that ridiculous Florida Georgia Line vibe"

Here, kitty kitty. Yeah, that's right

Fortunately, Meow Mix has a sense of humour

We're going to Meow Mix it up tonight

Mandatory: name-drop the product

"I'm pretty proud of this part"

Meow meow meow meow

All the new jingles have the "meow meow meow meow" at some point

Meow meow meow meow

The original Meow Mix theme was written in 1970

Meow meow meow meow

"We get to the iconic jingle and bring it all back home"

Meow meow meow meow

The next day, hung over and not sure what they'd agreed to, the two men hashed out a business plan. There would be a directory where you could type in cultural phrases—*Pulp Fiction*, say, or Prince—and sample dozens of tunes that evoke the motif. Jingle Punks started out of Gutstadt's studio apartment in 2008 with a few dozen tracks written by musicians he knew. "We were recording songs in front of everyone," says Jeff Peters, 28, one of the first songwriters. "It'd be like, 'OK, be quiet everyone, I have to do a tambourine solo!'" Their first client was Bravo's *The Real Housewives of Atlanta*, only because Gutstadt knew one of the show's producers from his days in television.

Today the company is headquartered in a Tribeca loft crowded with midcentury coffee tables and bar carts stocked with bourbon. There's a sign outside Gutstadt's office: "You are now entering the Imagination Dojo," which he explains "is literally just there because it's funny." He'd also "literally just gotten divorced" when he met his current wife, was "literally delusional" about how to start a company, and promises to make music "for literally anything." He's long-haired, prone to wearing ridiculous hats, and despite his love affair with "literally," has the charisma of a fast-wheeling salesman.

Thanks to Gutstadt's MTV connections, Jingle Punks racked up television clients right away. Most major networks now pay a blanket fee starting at $40,000 a year for access to the Jingle Player. They use the stock melodies as intro music or background filler for shows ranging from the serious (FX's *The Americans*) to the silly (the entire *Real Housewives* franchise).

Madison Avenue proved harder to woo. "Ad agencies wouldn't take meetings with us, so we were like, 'How about if we give you an orchestral concert at lunch?'" Gutstadt says. In 2010 he and a few songwriters went from agency to agency, performing classical versions of grunge and indie rock songs under the name Jingle Punks Hipster Orchestra. "Then we passed out cards afterwards." It worked: BMW, Fandango, Smirnoff, and Vaseline have since used Jingle Punks in their commercials. (Bloomberg LP, the owner of *Bloomberg Businessweek*, has also been a client.)

By letting companies browse for their own music, the team gets insight into changing tastes. The most popular search terms are appallingly conventional. Coldplay, Katy Perry, and U2 are tops right now. "You'd think they'd be better at trend spotting, but it's literally kind of vanilla," Gutstadt says. "Black Eyed Peas gets searched about 150 times a month. When was the last time they released an album?"

After the sale to Ole, Jingle Punks' clients now have gained access to thousands more songs, all by signed recording artists. Gutstadt hopes he can get some pro musicians to work on custom commissions, too, after persuading Lynyrd Skynyrd to record the theme for *Pawn Stars* two years ago. Demole recently had to upgrade the security software because Ole controls Taylor Swift's music, so they're always fending off hackers looking to leak her tracks.

The record label connection has also given Jingle Punks an opportunity to try its hand at popular music. This summer the company will release an album by Jelly Roll, a country-rap star from Nashville whose first brush with commercial music came after Waffle House sued him for naming an album after the restaurant chain. Jingle Punks' musicians are doubling as Jelly Roll's backing band on tour, and, of course, there's ad potential. He's already licensed a song called *Sunday Morning* to the NFL Network. "It literally has 'Sunday' in the title," Gutstadt says. "What could be a more perfect NFL song than that?" B

Clark table lamp by Lambert & Fils
$628; lambertetfils.com

Made from one continuous folded brass sheet, it abstracts the typical shape into something sculptural. Available in black, white, and unfinished brass, anchored by a white marble cube.

Adjustable pharmacy desk lamp by World Market
$150; worldmarket.com

Ones like this—with an adjustable height and a domed metal shade—were created to provide targeted light. Try it if your job is heavy on dense, fine-print documents.

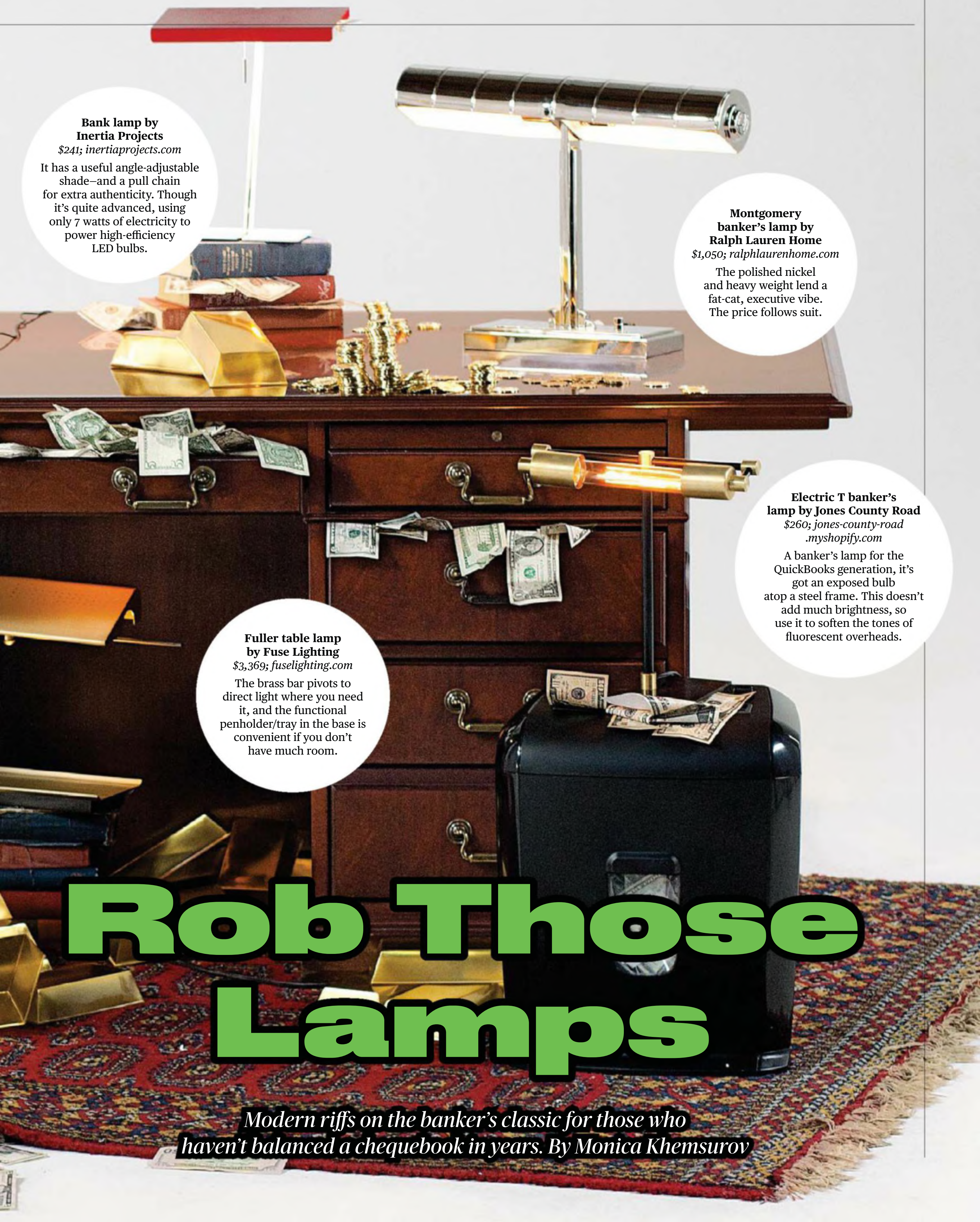
Goldman LED table lamp by Ron Gilad for FLOS
$495; ylighting.com

Named after the investment bank, it blends classic elements like a green shade, brass body, and pedestal base with contemporary updates such as a dimmable switch and minimalist profile. Great for a small desk in an open-plan space.

Classic adjustable table lamp by Restoration Hardware
$219; restorationhardware.com

The most versatile option, because the polished metal goes with any design scheme. Choose an Edison bulb if using solely as décor, or opt for a compact fluorescent one if you want to illuminate your entire private office.

PHOTOGRAPH BY MIKE AND CLAIRE FOR BLOOMBERG BUSINESSWEEK; PROP STYLIST: PRISCILLA JEONG



Rob Those Lamps

Modern riffs on the banker's classic for those who haven't balanced a chequebook in years. By Monica Khemsurov

Bank lamp by Inertia Projects
$241; inertiaprojects.com
It has a useful angle-adjustable shade—and a pull chain for extra authenticity. Though it's quite advanced, using only 7 watts of electricity to power high-efficiency LED bulbs.

Montgomery banker's lamp by Ralph Lauren Home
$1,050; ralphlaurenhome.com
The polished nickel and heavy weight lend a fat-cat, executive vibe. The price follows suit.

Electric T banker's lamp by Jones County Road
$260; jones-county-road .myshopify.com
A banker's lamp for the QuickBooks generation, it's got an exposed bulb atop a steel frame. This doesn't add much brightness, so use it to soften the tones of fluorescent overheads.

Fuller table lamp by Fuse Lighting
$3,369; fuselighting.com
The brass bar pivots to direct light where you need it, and the functional penholder/tray in the base is convenient if you don't have much room.

NET REVENUE

A new book on how soccer became one of the world's purest markets. By Ira Boudway

Soccer has a long history in the US as a socialist bogeyman. Americans resisted the game for decades because it was a foreign invention. Even now, when the World Cup comes around or FIFA erupts in scandal, conservatives warn that the sport is un-American, as if any game that allows for scoreless ties and forbids the use of hands is worthy of the Politburo. "Individual achievement is not a big factor in soccer," Ann Coulter wrote last summer. "The blame is dispersed, and almost no one scores anyway."

It makes sense that Coulter sees soccer as a threat: The game pulls its stateside audience from the young, from Hispanics, and from city dwellers—groups that helped elect President Obama twice. Soccer's growing popularity is a sign of demographic shifts that don't favour the Republican Party. Yet the idea of the sport as a socialist cesspool would seem strange to fans in Europe, where Cristiano Ronaldo, striker for the Spanish club Real Madrid, makes $400,000 a week and regularly sends a stylist to brush the hair of his statue at Madrid's wax museum.

For those unacquainted with Ronaldo, Real Madrid, and the ways soccer teams are built, Stefan Szymanski's *Money and Soccer* is a good primer. The author shows how Europe's top leagues are among the world's best expressions of market capitalism. Over the past two decades in the English Premier League, for instance, the team that paid the most in player wages has won nine titles; the team with the second-highest wage bill has won seven. And so on.

Money and Soccer is a follow-up to *Soccernomics*, a 2009 best-seller that Szymanski, a professor of sports management at the University of Michigan, co-wrote with British journalist Simon Kuper. That book deployed economics to explain things like the fate of nations in the World Cup and the optimal penalty kick strategy. Like *Freakonomics*, it combined social science with a tireless insistence that conventional wisdom is wrong.

Szymanski's new book reads more like a series of very good college lectures. Using tables, scatter-plots, and teacherly prose, he lays out how markets rule. "There are two fundamental statistical relationships in soccer: First, the more you spend on players, the more successful you will be on the field," he writes. "The second relationship is as simple as the first: More successful teams on the pitch generate more revenue." Money brings talent. Talent brings wins. Wins bring money. The loop is so tight, it scarcely leaves room for profit. Despite an estimated $27 billion in annual revenue for clubs across Europe, most clubs operate on a slim margin.

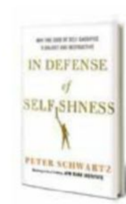
In European soccer, unlike major US sports leagues, there are no restrictions on player pay—no salary caps, no wage scales, and no amateur drafts. Teams compete with local rivals for market share. And at the end of each season, the bottom teams are kicked out of leagues and replaced by the top finishers from the league below. America's NFL, by comparison, looks like a cartel: Its 32 owners fix labour costs, divvy up proceeds, and enjoy regional monopolies.

The one way for a European soccer club to move up the ranks, Szymanski says, is to spend money it doesn't have. Some clubs borrow heavily to try to make the leap, then go belly up. Others are blessed with megarich owners willing to spend unholy amounts to win trophies. These "sugar daddies" usually become the objects of populist scorn among fans.

The top two clubs in the English Premier League last season were Chelsea and Manchester City. Their owners are a billionaire Russian oligarch and a billionaire sheik from the United Arab Emirates. The hot soccer topic right now is Financial Fair Play Regulations, a proposal that would force teams to spend only what they make. As Szymanski sees it, this is about restraining the naked pursuit of sporting glory by global capitalist overlords. So far, it's not working. Ⓑ

MASTER CLASS

A WHOLE NEW YOU



In Defense of Selfishness
By Peter Schwartz (Palgrave Macmillan), $27

Self-sacrifice isn't the virtue we're taught it is as children. "A state of mindlessness is a state of disregard for one's own being. **To be selfish is to be rational**." *p27*

You should **adopt a code of egoism**—but go about it cautiously. "The good is determined by what is objectively necessary for sustaining man's life. The good does not consist in capriciously snatching an instant of mindless gratification." *p55*

Equality is a farce. "Since altruism holds as its standard the needs of the collective rather than the right of the individual, it regards capitalism as evil.... [But] **in non-capitalist systems, rights are dismissed**." *p116*

Society wins! "The paternalists have it backward. **If left free, the individual can achieve enduring success**. It is the standard of self-interest that demands logical, long-range thinking." *p155*

ILLUSTRATION BY TONI HALONEN

MICHAEL APA

37, cosmetic dentist, Rosenthal Apa Group, New York and Dubai

PHOTOGRAPH BY CHRISTOPHER LEAMAN FOR BLOOMBERG BUSINESSWEEK

You work in Dubai?
I have a dental practice there. I treated the royal family a while ago, and they invited me back. I go twice a month. I have a team, but I'm the guy who sees special patients.

How'd the royal family hear about you?
I was on a TV show in London, and they saw it and came in.

What's your specialty?
Purely aesthetic dentistry, which is when we restructure someone's mouth with porcelain veneers or implants.

Are your shirts and suits custom?
No. I can wear Brunello Cucinelli pretty much off the rack, and it looks custom. I own around 30 suits.

Where do you store them?
I allow my son to use our fourth bedroom as a video game room as long as I can have the closet space.

Are you a watch guy?
I love watches. I pick one each day depending on what I'm wearing.

Do you wear a white coat at work?
It's an official uniform as a doctor, but I wear it so I don't get stuff on my suits.

Why wear suits?
People come to me for my aesthetic, so it's part of the trust process.

So what's your aesthetic?
Casually understated but very sharp.

Why these shoes?
They are fitted, but not bulky, and finish off the tapered legs of my suit nicely. I don't mix it up—I probably have 20 pairs by this designer.

Interview by Arianne Cohen

How Did I Get Here?

KEVIN ROBERTS

Executive chairman, Saatchi & Saatchi

Running track at Lancaster in the 1960s

"I got kicked out at 17 in 1966. My girlfriend became pregnant, and my headmaster said, 'You've got to leave the girl.' I replied, 'That's not how we do things in the north of England.'"

Education

Lancaster Royal Grammar School, Lancaster, England

With sister Trisha in the 1950s

Work Experience

1967–69
Pub boy, delivery boy, exporter

In the 1960s

"I worked in exports because I spoke French and Spanish—people in Lancaster didn't speak anything at the time, not even English."

1969–72
Brand manager, Mary Quant Cosmetics

"It was a stroke of luck and timing, and I was lucky to work with a genius—Mary invented the miniskirt. My bosses were women, so I learned how women lead with connectivity, collaboration, and creativity."

1972–75
International new-products manager, Gillette

"Gillette was looking to get into female toiletries."

1975–82
Group marketing manager for export and special operations, Middle East/Africa, Procter & Gamble

1982–89
Regional vice president for Middle East, president and chief executive officer for Canada, PepsiCo

"It was during the heart of the Cola Wars and very fun. We felt we were the special forces."

1989–96
Director and chief operating officer, Lion Nathan

"Lion was a bottler and the biggest brewer in New Zealand, and Nathan was a bunch of retail stores, and they wanted someone to bring them together."

Promoting *Lovemarks*, his book about advertising, at the London Book Fair in 2004

1997–2014
CEO worldwide, Saatchi & Saatchi

"My father worked in a mental hospital as a security guard, and that's pretty much the same job as running an ad agency."

2015–Present
Executive chairman, Saatchi & Saatchi

"We hired Robert Senior in 2008 and said, 'One day, my son, this all can be yours.' So on 1 January we gave it to him."

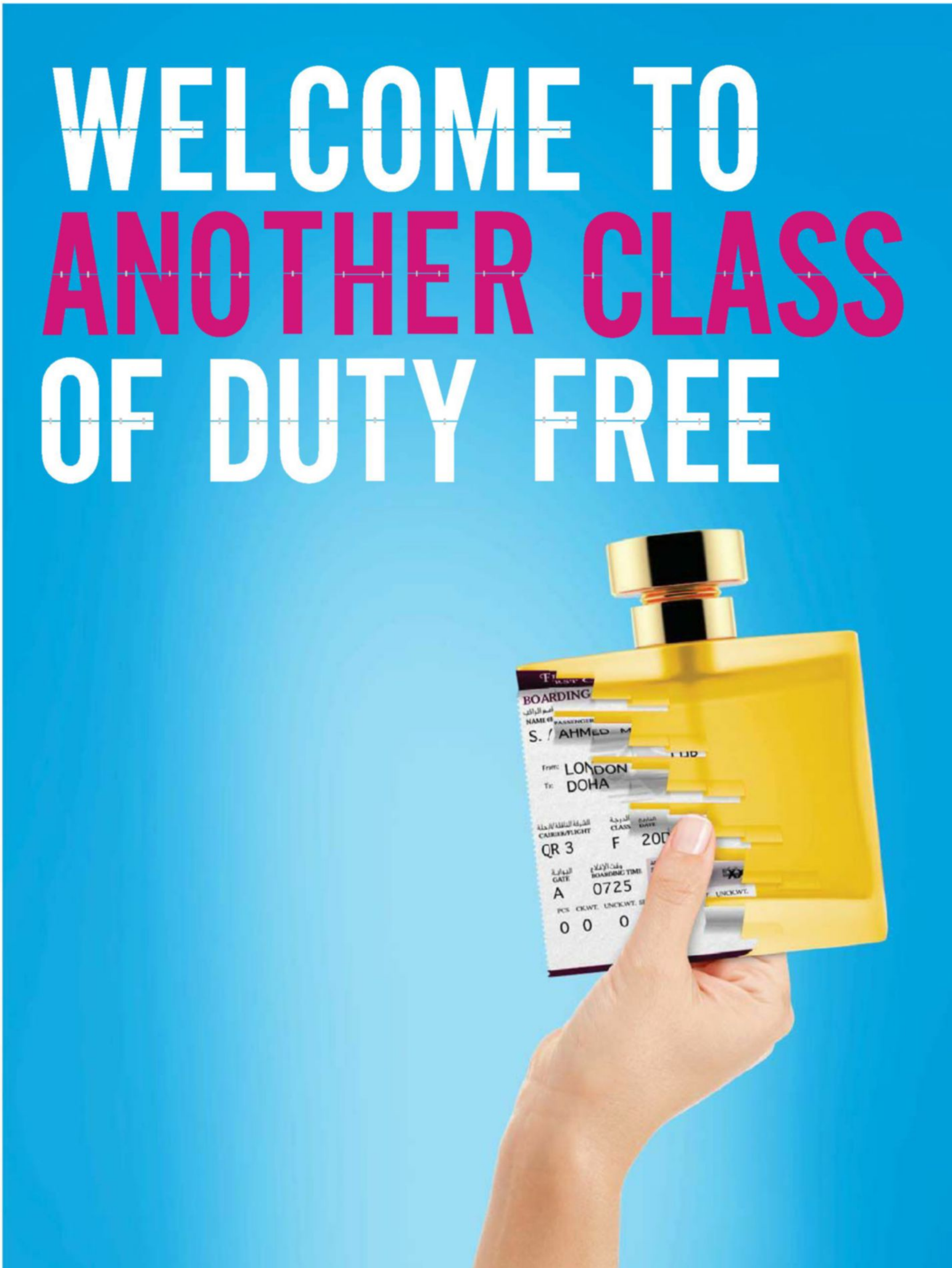
SAATCHI & SAATCHI

Receiving an honorary doctorate at Lancaster University with mountaineer Chris Bonington in 2009

Life Lessons

1. "When given a command, take charge and do what's right. General Norman Schwarzkopf told me that." **2.** "Fail fast, learn fast, think fast. Velocity gives great competitive advantage." **3.** "Start with the solution and work backward. You cannot incrementalise your way to salvation."

Courtesy subject (6), Bloomberg (1)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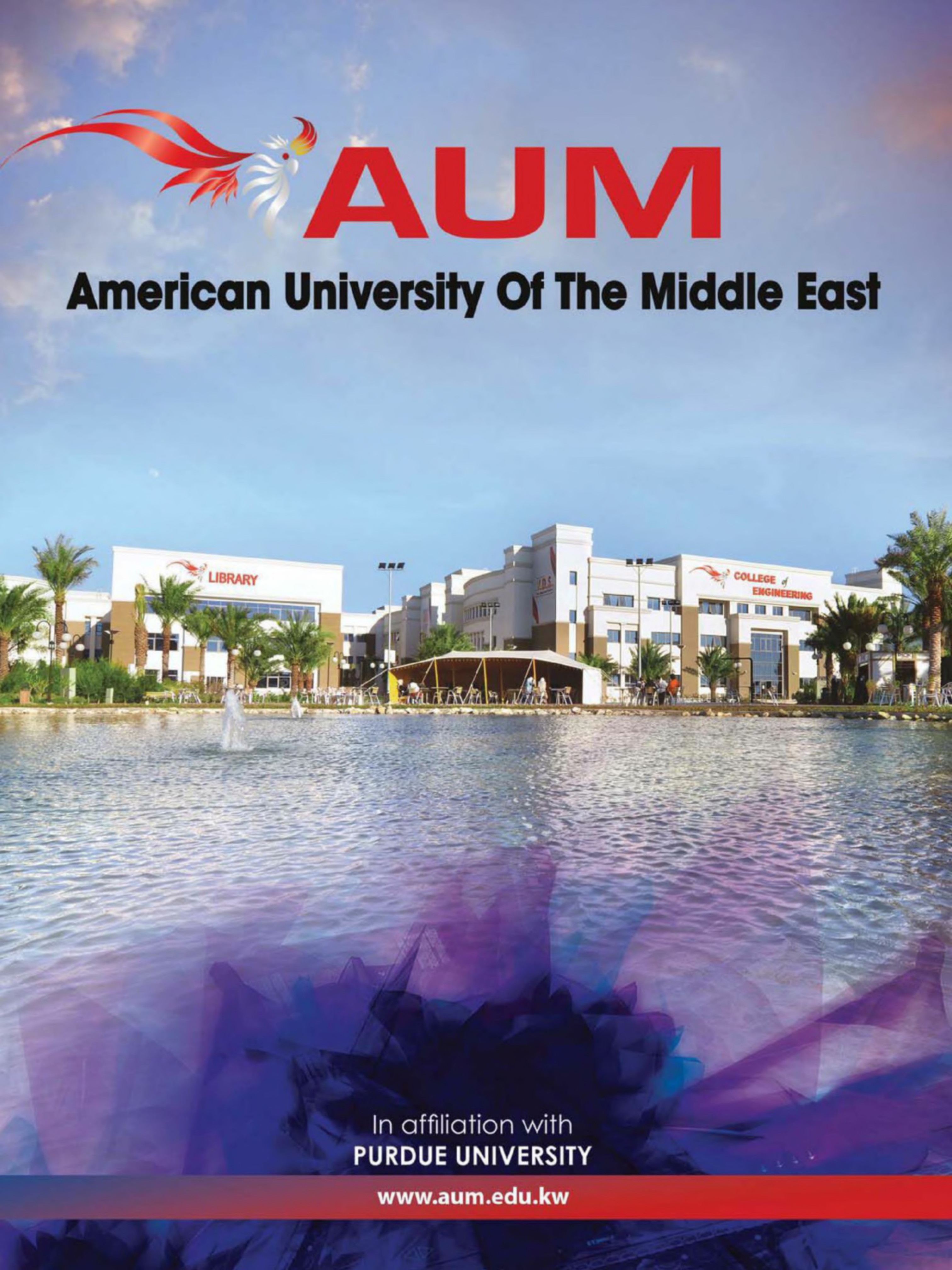
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